

Internationalising the renminbi

INTERVIEW WITH SUN YU

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SUN YU

began his career at Bank of China Head Office in 1998, and has held a number of senior positions at the Bank in both Mainland China and Hong Kong, including the Deputy General Manager of the Global Markets Department at Bank of China Head Office, the Deputy General Manager of Bank of China Shanghai Branch and the General Manager of Global Markets in Bank of China Hong Kong Ltd. He was appointed the General Manager of Bank of China London Branch and CEO of Bank of China (UK) Ltd in 2014.

How do you see the recent growth of economic ties between China and the UK? As the first Chinese financial institution to open an overseas office, what role has Bank of China played in this process?

As Prime Minister David Cameron remarked in his Chinese New Year message, 2015 is the 'Golden Year' for China-UK relations. Along with President Xi's State Visit in October, this year will see the unveiling of a special 'Golden Era' for China-UK relations over the next five years and more.

The UK remains China's most popular European investment destination, and its second largest European trading partner. Late last year the UK became the first sovereign nation outside China to issue an RMB bond, confirming London's position as Europe's most vibrant centre for RMB business.

China has embarked on a new development strategy to 'rebalance' its economy and reinforce its integration into global markets. Elements of this – including the 'One Belt One Road' initiative – are likely to have a major impact across the globe.

One fruitful area of cooperation between the UK and China has been the development of strong financial ties. Earlier this year, the UK was among the first European countries to join the China-initiated Asian Infrastructure Investment Bank (AIIB), earning it a sharp rebuke from other G7 countries. Furthermore, the UK is playing a crucial role in the development of the global RMB market.

Founded in 1912, Bank of China is the country's most international and diversified bank, serving customers across the Chinese mainland, Hong Kong, Macau, Taiwan and 41 other countries. In 2011, it was the first Chinese bank identified by the Financial Stability Board (FSB) as a Global Systemically Important Bank (G-SIB), and it has been the only G-SIB headquartered in an emerging market for four consecutive years.

Bank of China London Branch, founded in 1929, was China's first overseas financial institution. Since then, the Bank has acted as a bridge for facilitating bilateral trade and investment between China and the UK. As the founding member of City of London's RMB Initiatives, Bank of China has been instrumental in helping London develop into a leading RMB offshore centre. In October 2014, Bank of China acted as the joint lead manager when the

UK government became the first country to issue an RMB denominated sovereign bond. Later this month, Bank of China will launch its global trading centre in London to further boost RMB business in the world's leading financial centre.

Among the many significant milestones of the Bank's long history in the UK, what advantages has the establishment of its wholly-owned subsidiary, Bank of China (UK) Limited, in 2007, brought in particular?

With nearly a hundred years of overseas operation, Bank of China has built the most globalised service network and most diversified financial service platform. Bank of China London Branch has been acting as the bridge between China and the UK.

In 2007, the Financial Services Authority approved Bank of China to establish a UK subsidiary – Bank of China (UK) Limited. Its establishment has been significant to the development of the Bank of China Group in both Britain and Europe. Since then, UK subsidiary has run alongside London Branch, while continuing to maintain a competitive edge and to promote the Bank's image and reputation in the UK.

In the future, the Bank will continue to strengthen linkages between China and abroad, expand large wholesale business, accelerate business development, support Chinese enterprises' 'going out' endeavours, promote the development of RMB business, and continue to serve as a bridges between the two nations.

The city of Manchester, which President Xi is due to visit later this month, has one of the largest and longest-established Chinese populations in the UK. How do you see Bank of China's presence in the city assisting in the growth of the so-called 'Northern Powerhouse'?

Manchester has a significant importance in the Bank's development strategy. The Bank established a sub-branch in Manchester in 1979.

On 23rd October this year, working together with UK Trade & Investment (UKTI), Bank of China will organise a business match-making event in Manchester, promoting businesses in the 'Northern Powerhouse'.

The main purpose of this event is to help SMEs in both the UK and China to break down barriers and bring them together to do business. China is a

huge and expanding market for UK businesses. UK exports have increased by over 37 per cent in the last 2 years. The UK is well known for its innovation, advanced technology, and business heritage, particularly in certain sectors such as food and drink, consumer goods, manufacturing, renewable energy, healthcare and medical equipment while Chinese companies have manufacturing capacity and large potential market place. Businesses from both countries are supplemental to each other. However, very often we have found that SMEs have limited access to the market overseas due to culture difference, language barriers, and lack of resources. As the most internationalised bank in China, Bank of China will provide a network of over 10,000 branches and 60,000 small and medium sized customers (SME) in China potentially looking to do business with the UK SMEs.

Why is the internationalisation of China's currency so important? What are the greatest challenges to internationalising the RMB?

RMB internalisation is so important because currency diversification has become a vital element of global financial stability. The collapse of the Bretton Woods System showed the inherent vulnerability of the gold standard and that a single currency-dominated system cannot avoid the 'Triffin dilemma'. In 2014, China accounted for over 13 per cent of the world's total GDP, but its currency status is not in line with its economic position, which also means a great potential upside. Historical experience suggests that the basic conditions are ripe for the RMB to become an international currency.

The RMB has become a force in safeguarding global financial stability, especially during times of crisis. In 1997, Southeast Asian countries rushed to devalue their currencies to absorb the shock of the Asian financial crisis. China pledged not to devalue the RMB, giving confidence to the market. In the global financial crisis that broke in 2008, the RMB's value was rising, providing a significant contribution to economic stability. China's stable social and political environment, rapid economic growth, balance of international payments, low foreign debts and huge foreign exchange reserves are essential to avoiding drastic exchange rate fluctuations, and help underpin confidence in the RMB.

One of the biggest challenges of RMB internationalisation is the relatively low acceptance of the RMB outside the Asia-Pacific region. Although Chinese banks have some overseas corporate customers, RMB usage by foreign business is very limited. It is vital for China to better meet their demands, while expanding and deepening the offshore RMB capital market, so that the currency can develop internationally in the years to come.

The other greatest challenge is to maintain stability while carrying out domestic financial reforms, such as liberalising interest and exchange rates, and opening up the capital account. At present, China's macroeconomic environment is stable and foreign exchange reserves are plentiful, but the level of financial supervision is still far behind developed economies, and the country lacks experience in coping with international financial risk. Any premature opening of the capital account will cause great risk to China. Therefore, RMB internationalisation will take time and careful planning, and will require significant investment in market infrastructure and development.

The British government is keen to develop London as an offshore RMB centre. What business changes will the Bank of China need to make?

As China's RMB internationalisation progresses, Britain and China will enjoy better and closer financial co-operation and bilateral economic ties. The countries both agreed to hold the first meeting of the China-UK Bilateral Investment Taskforce in the latter part of this year to optimise the investment environment.

During its 86 years of continuous operation in Britain, the Bank of China has been playing an active role in promoting economic and trade relations. On 23rd September, we organised the first China-UK Cross-Border e-Commerce Co-operation Roundtable in Shanghai, during which Sajid Javid, the UK Business Secretary, signed an agreement that will support British exporters and help promote their online sales in China.

When cross-border RMB pilot programmes were launched as early as July 2009, the Bank of China London Branch took the lead, offering comprehensive RMB products and services. After more than six years of continuous hard work, the Bank's RMB business has achieved sustained and rapid development, maintaining its leading position. Over the years, London has grown to be an offshore RMB trading centre, with its RMB forex trading volume close to that of Hong Kong. Therefore, it is time for the Bank to upgrade its existing trading capabilities to enhance its competitiveness in the London market.

The bank is building up a global service platform for customers comprised of a trading centre, syndication centre and commodity centre. Later this month, to fully utilise London's position as a rising offshore RMB trading centre, the Bank plans to launch a global trading centre in London. This will be the group's second largest offshore trading centre after Hong Kong, which will allow 24-hour integrated operation of its financial markets business and will strengthen the position of London as a global offshore RMB trading centre.

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