Opportunity of Internationalized RMB, Cross-border Trade and Investment

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Contents

- RMB internationalization irreversible and boost cross-border RMB investment and trade
- Bilateral channels for RMB cross-border flowing are expanding
- Capital markets of China are becoming more and more attractive
- RMB offshore markets are booming
- Great opportunity of cross-border business is coming
China's economic rise motivate cross-border investment and trade in RMB

- China’s GDP was number 2 in the world, 2009;
- Volume of export accounts for 10.4% of the world in 2011, which exceeded 2.3 percent points compared with that of the USA;
- RMB internationalization process now focus on capital flowing.

- Huge trading scale and staggering growth prospects of China push forward increase of RMB’s storage and currency in overseas.
- The total settlement of RMB for cross-border trade broke through 4000 billion yuan from 07-2009 to 2012;
- Capital account more than 200 billion yuan.
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Bilateral channels for RMB cross-border flowing are expanding

RMB cross-border flowing management policy system has already formed its basic framework.

- Continuously relax control and build the Bilateral channels for RMB capital flowing;
- Allow opening RMB account freely in Hong Kong banks for cross-border business;
- RMB settlement for foreign trade expand to all provinces

Outflow channels of RMB

- Trade Settlement in RMB
- ODI
- Panda Bonds
- ......

Backflow channels of RMB

- RMB bonds, or “dim sum bonds”, HK
- RQFII
- Qualified foreign institutions participating inter-bank markets;
- ......
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With rapid growth, Capital market scales of China are becoming bigger and bigger
...... and more and more attractive

Mutual Funds Development

Future markets monthly turnover

... designing international board of A share market
... interest rates liberalization
... capital account of RMB balance sheet convertible
... supporting Hong Kong to become RMB Center

Market-oriented reforms, deregulation and innovation of financial system in the near future

Liberalized, multistoried and highly innovative financial market system
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As the trading scales, varieties and participants increasing, RMB offshore markets are developing at top speed

<table>
<thead>
<tr>
<th>Products in sale &amp; trading</th>
<th>Participants</th>
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<td>Credit products of bank</td>
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<td>Bond</td>
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<td>Currency markets</td>
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<td>Derivative markets</td>
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<td>Fund markets</td>
<td>International Org.</td>
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<td>Other products:</td>
<td>Domestic bank</td>
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<td>Domestic citizen</td>
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<td>Domestic institute</td>
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<td>Chinese government</td>
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... And as the major RMB centre, HK offshore markets had developed well

- ¥2 trillion: 2011, RMB settlement volume in HK for foreign trade reached 2 trillion yuan
- 140: registered institutes in HK for RMB business over 140
- 170: over 170 banks participating RMB settlement in HK
- ¥30 billion: as far as 2011, RMB loans offered by HK institute about 30 billion yuan
- $2.7 billion: at present, daily RMB spot transaction in HK about 2.7 billion USD
- ¥630 billion: 2011, RMB capital amount in stayed in Hong Kong reached to 630 billion yuan
- ¥170 billion: dim sum bonds issued since the very beginning, accumulated to 170 billion yuan
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Major opportunity of RMB cross-border business emerging

Rapid growth and structural transformation provide RMB cross-border business strong power to expand

- over 30 years, China’s GDP annual growth above 10%, next 10 years still at 7%-8%
- China still on the middle way of the urbanization (40% 55%)
- consumption, investment and foreign trade provide demand for financial services
- speed up economic structure adjustment, the strategy of going-global
- becoming a major capital export country
- scale of the capital cross-border flowing still grow

Reform of interest rate and exchange rate system far from complete

- deepening the reform of financial system, the fluctuation margin
- domestic interest rates fluctuate differently from that of the offshore
- the gaps between local and overseas prices and arbitrage opportunities long-lasting as well.

Deregulation making potential for investment and finance reality.

- China liberalization deepening
- limitation in many fields
Thank you

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