

RMB business

The writer is extremely to hear about Central Government is to allow banks in Hong Kong to provide some RMB trade finance services to enterprises. Premier Wen indicated banks in Hong Kong may facilitate RMB trade financing for direct import of Chinese goods in the first stage of opening, some analysts estimated this is a USD 3 billion business per annum, this is a very important step and a 'win win' situation for all parties involved,

1. Benefit for the banking community in Hong Kong is widespread, as trade financing business is basic banking business. Large or small banks will all be benefited, including medium size European, American and ASEAN regional banks which have branch offices in Hong Kong. Most of small and medium enterprises have their manufacturing base across the border, this new measure will allow banks in Hong Kong to provide direct RMB financing to their clients, compared to the present situation that banks in Hong Kong can only open HKD or USD letter of credits and clients still have to find another banking service provider in the Mainland for currency conversion.
2. Hong Kong can expand its financial centre as intermediary and information provider to foreign SMEs which are expanding into China. More American and European regional banks which cannot open offices in China for various reasons such as asset size threshold can use Hong Kong as the base to service their home clients. There are a good number of European regional banks in Hong Kong but they are not very active.
3. Citizens who would like to have RMB deposits will also benefit in the longer term as banks have an outlet for their deposit after the new measure is materialized instead of just placing to the People's Bank at 0.8%. Once banks complete for RMB funds for their trade finance needs, deposit rates should rise.
4. Private enterprises in the Mainland can use banks in Hong Kong for exporting financing as Hong Kong has bigger choice of banks specializing in various regions in the world, for example, Hong Kong has more Italian and Spanish regional banks than Shanghai and Guangzhou.
5. SMEs will enjoy better banking terms as they can choose to deal with their Hong Kong based relationship banks for direct RMB trade financing.
6. Logistics companies in Hong Kong can work with banks to combine logistic and financing services for clients, this may strengthen Hong Kong's bid for being the regional hub of logistics.

Suggestions

1. To materialize the new measures as soon as possible,
2. To set up cross industry working group to ensure full benefits of the new measures can be realized.
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4. To trumpet these new measures overseas targeting foreign SMEs and regional banks to attract them to set up offices in Hong Kong.

As trade financing offers a widespread benefit to different sectors of Hong Kong, the writer suggests this item should be prioritized. RMB bond issuing confirms Hong Kong's capital market centre status but immediate impact is nominal, Hong Kong's RMB deposit size is only about 24 billion at present, compared to a domestic bond market of 6-8 trillion, Hong Kong is not going to be a regular and mature market for RMB bond financing in quite sometime. Only a few banks with an investment banking arm and have a substantial RMB deposit base will participate in bond business. Like QDII, medium and small banks in Hong Kong are not going to have a significant role.

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