Beyond borders: China opens up to the world

The effects of globalisation on China and Belt and Road countries
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Foreword

China’s re-emergence fuels demand for the RMB

According to the latest S&P Global Market Intelligence annual rankings, the top four banks on the planet are from China, and they grew their assets by US$13.8 trillion in 2018 alone.

That growth is not just an indication of China’s new global status. What we are seeing is the country’s re-emergence as an economic superpower.

Top trends

This can be seen in a few of the key trends that are driving China’s development. One is the shift of China’s economy to consumption and services. Now that imports are playing a larger role, China is expected to have a greater influence on the currency used, with a preference for the renminbi (RMB). Another is the emergence of the so-called ‘new economy’ led by BigTech, including companies with aspirations towards global technology leadership. That increasingly includes the ‘ABCDs’ of Artificial Intelligence (AI), blockchain, cloud and big data. The new economy is also accelerating China’s already rapid urbanisation by creating jobs in towns and cities. Today, more than half of China’s population lives in urban areas, which are rapidly developing into large, influential and inter-connected mega-cities. One example is the Greater Bay Area in Southern China, which links the semi-autonomous regions of Hong Kong and Macau with nine mainland Chinese mega-cities.

Then there is the rise of the middle class. China has lifted approximately 750 million people out of poverty. This middle class population is expected to reach at least 550 million by 2022. And, as the number of technology and service industry jobs continues to grow, the middle class is increasingly driving consumption and imports. The liberalisation of China’s current and capital accounts has also been occurring steadily. China is at the centre of global trade. It accounts for 27% of global manufacturing value added output – close to double (1.7 X) the U.S., and almost three times (2.8 X) Japan. However, adoption of the RMB as an international settlement currency remains relatively low.

Similarities and differences

The RMB’s situation today is, in many ways, reflective of the Yen’s recent experience, even if the outcome is different.

For example, despite Japan’s economic importance in the 1980s and 1990s, coupled with efforts by the Japanese government to internationalise the Yen, the currency never became a dominant invoicing currency such as the U.S. dollar.

China has other plans for its currency.

SWIFT has seen RMB adoption across financial institutions continue to grow globally, with the number of banks using the currency for payments increasing steadily over the last three years. We are playing an important part in supporting that growth. This includes providing the connectivity, reach and value-added services that financial institutions need to thrive along the Belt & Road (BRI) and the Greater Bay Area (GBA) as they rely on our community engagement and standardisation to operate efficiently and grow their business. It will certainly be interesting to see whether the RMB will be successful in redefining the dynamics of the international monetary order. In the meantime, I hope that this paper will put some of the most recent developments into perspective and provide insight into the RMB’s likely future.

By Alain Raes
Chief Executive, APAC & EMEA, SWIFT


China has become a global player, and its new manufacturing muscle and developing economic might is steadily transforming the way the world works. Yet, although its main language – Putonghua – is the world’s most spoken tongue, its currency still has a long way to go before it comes close to matching today’s most popular payment tools – the U.S. dollar and the Japanese yen.

**RMB internationalisation**

In April 2019, the RMB’s share of international payments currently sits at 1.88%. Looking at cross-border payments, and excluding intra-Eurozone payments, the figure falls even lower to 1.20%.

The situation is changing, albeit gradually. The 2016 addition of the RMB to the International Monetary Fund’s (IMF) Special Drawing Rights (SDR) Basket was a big step. Since then, many central banks have added the RMB to their mix of reserve currencies.

In parallel, the increased use of the RMB in trade has helped to make it even more popular. This is particularly true for businesses involved in importing or exporting Chinese goods, which see advantages, such as limiting exchange rate risks. The increasing availability of offshore RMB funding, which can reduce the cost of borrowing, has also fuelled demand for, and the acceptance of the currency.

**Big ideas creating new RMB opportunities**

Nobody could accuse China’s approach to expanding its economic power into the global arena as lacking in vision. Not when it includes initiatives like the Greater Bay Area (GBA), which aims to unite Hong Kong, Macau, Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing, into an integrated economic and business hub that will rival ‘Silicon Valley’ by 2035.

Then there is the Belt & Road Initiative (BRI). Described by President Xi Jinping as ‘the project of the century,’ the BRI is designed to improve trade routes between Asia, Africa and Europe, develop new infrastructure and facilitate bi-lateral trade arrangements, and increase China’s global strategic influence. Whether these plans will achieve their stated goals remains to be seen. However, they are having an impact. The Chinese General Customs Administration reports that Chinese imports and exports to countries along the BRI reached RMB 16.8 trillion in the first three quarters of 2018 – an increase of 13.2% compared to last year.

The BRI is already presenting significant opportunities for Chinese and foreign banks with a presence in BRI countries, and acting as an enabler for RMB internationalisation. The number of branches and subsidiaries of Chinese banks connected to SWIFT, in BRI countries increased by 31% between 2014 and 2018. Many of them were opened specifically to serve State-Owned Enterprises (SOEs) and Chinese corporates involved in BRI infrastructure projects.

**Payments and trade flows with China**

There was a surge in payments traffic to and from China with some countries along the ‘Silk Road Economic Belt’ between 2014 and 2018. For example, Hungary, Turkey and Uzbekistan saw increases of 242%, 35% and 170% respectively during this period.

Over the same period, in South East Asia, Singapore has experienced payment traffic growth with China of 231%, and Thailand, Vietnam and Indonesia are also reaping the benefits of the BRI.

Africa’s adoption of the RMB appears to be increasing. The total payments in all currencies from China to Africa increased by 67.05% in Q1 2019 compared with Q1 2016. But, the amount of RMB used increased by 53.48%. RMB payments from Africa into China have also grown. The total across all currencies shows a healthy increase of 27.76%. But, during the same period, the proportion of RMB used for payments increased by a staggering 123.01%.

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3 All statistics and charts in this report are referenced from SWIFT BI Watch; and are drawn from full-year 2018 data or Q1 2019
Part I: China on course for internationalisation

1.1. The RMB today

China’s economy is a phenomenon which has outperformed that of every other country for decades. It overtook Japan in 2011, and is now on course to surpass the longstanding global leader, the United States, possibly as soon as 2020 according to a report by Standard Chartered Bank. However, so far that incredible growth has not paved the way to an equally dramatic increase in the use of the Chinese RMB as an international payments currency.

Analysis of SWIFT transactions shows that in April 2016 the RMB accounted for a 1.82% share of international payments currencies. That puts it in sixth place internationally, behind the Canadian dollar, the Japanese yen, the British pound, the euro and the U.S. dollar respectively. This position has not changed dramatically in the intervening two years. Although figures for April 2019 show that the RMB has moved up one slot to replace the Canadian dollar in fifth place, its share as an international payments currency remains just 1.88%. When excluding intra-flows within the Eurozone, the RMB’s share is even smaller, representing just 1.20%.

RMB’s share as an international payments currency
Customer initiated and institutional payments. Messages exchanged on SWIFT. Based on value.

<table>
<thead>
<tr>
<th>April 2016</th>
<th>April 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. USD</td>
<td>41.92%</td>
</tr>
<tr>
<td>2. EUR</td>
<td>30.69%</td>
</tr>
<tr>
<td>3. JPY</td>
<td>8.40%</td>
</tr>
<tr>
<td>4. CAD</td>
<td>3.24%</td>
</tr>
<tr>
<td>5. CNY</td>
<td>1.83%</td>
</tr>
<tr>
<td>6. AUD</td>
<td>1.96%</td>
</tr>
<tr>
<td>7. CHF</td>
<td>1.00%</td>
</tr>
<tr>
<td>8. SEK</td>
<td>0.87%</td>
</tr>
<tr>
<td>9. HKD</td>
<td>1.09%</td>
</tr>
<tr>
<td>10. TRY</td>
<td>0.54%</td>
</tr>
<tr>
<td>11. NOK</td>
<td>0.73%</td>
</tr>
<tr>
<td>12. ZAR</td>
<td>0.46%</td>
</tr>
<tr>
<td>13. DKK</td>
<td>0.29%</td>
</tr>
<tr>
<td>14. NZD</td>
<td>0.34%</td>
</tr>
<tr>
<td>15. EUR</td>
<td>0.25%</td>
</tr>
</tbody>
</table>

RMB’s share as an international payments currency – Excluding payments within Eurozone
Customer initiated and institutional payments. Excluding payments within Eurozone. Messages exchanged on SWIFT. Based on value.

<table>
<thead>
<tr>
<th>April 2016</th>
<th>April 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. USD</td>
<td>40.76%</td>
</tr>
<tr>
<td>2. EUR</td>
<td>33.16%</td>
</tr>
<tr>
<td>3. JPY</td>
<td>4.27%</td>
</tr>
<tr>
<td>4. CAD</td>
<td>2.59%</td>
</tr>
<tr>
<td>5. CNY</td>
<td>1.88%</td>
</tr>
<tr>
<td>6. AUD</td>
<td>1.61%</td>
</tr>
<tr>
<td>7. CHF</td>
<td>1.31%</td>
</tr>
<tr>
<td>8. SEK</td>
<td>0.97%</td>
</tr>
<tr>
<td>9. HKD</td>
<td>1.84%</td>
</tr>
<tr>
<td>10. TRY</td>
<td>0.41%</td>
</tr>
<tr>
<td>11. NOK</td>
<td>0.64%</td>
</tr>
<tr>
<td>12. ZAR</td>
<td>0.53%</td>
</tr>
<tr>
<td>13. DKK</td>
<td>0.46%</td>
</tr>
<tr>
<td>14. NZD</td>
<td>0.35%</td>
</tr>
<tr>
<td>15. EUR</td>
<td>0.34%</td>
</tr>
<tr>
<td>16. SGD</td>
<td>0.44%</td>
</tr>
<tr>
<td>17. PLN</td>
<td>0.44%</td>
</tr>
<tr>
<td>18. NOK</td>
<td>0.45%</td>
</tr>
<tr>
<td>19. MIN</td>
<td>0.37%</td>
</tr>
<tr>
<td>20. RUB</td>
<td>0.20%</td>
</tr>
</tbody>
</table>

Source: Watch
Powered by SWIFT BI

Part I: China on course for internationalisation
(continued)

Defining internationalisation

What does internationalisation mean? In simple terms, any currency that is used offshore for trade and investment can be described as ‘international’. The real question is whether the currency is accepted by enough organisations and institutions to make a significant impact in world markets.

China’s government has been promoting the internationalisation of the RMB for a variety of reasons. One of them is because an internationally recognised currency represents a tacit seal of approval for the country’s markets, institutions and policies.

Indeed, the International Monetary Fund’s 2016 addition of the RMB to its Special Drawing Rights (SDR) represented a huge step for the currency. The decision to include the RMB alongside the four existing SDR currencies – the U.S. dollar, the euro, the Japanese yen, and the United Kingdom’s pound – was regarded as an important milestone for both the IMF and China, as well as recognition of China’s continuing progress on economic reforms.

There are also practical and economic advantages to internationalisation. For example, the increased use of the RMB as a trade mechanism is convenient for China’s exporters and importers, and poses less exchange rate risks. It can even reduce the cost of borrowing through access to offshore sources of RMB funding – what is sometimes called the ‘dim sum’ market.

RMB reserves are up, but global payment value is lagging

Certainly, more central banks are now using the RMB for their reserves, which is a good indicator of the currency’s increasing acceptance. However, despite the obvious importance of China as a global economic power, the use of the RMB as an international commercial currency is still lagging.

1.2. Greater Bay Area vision delights developers, industrialists and investors

In 2017, the Chinese government laid out its ambitious concept for the Greater Bay Area (GBA) in its 13th Five-Year Plan.

The GBA is more than a map. It is an idea designed to take some of the most vibrant socioeconomic regions in Southern China to a new level of development through intense collaboration and cooperation. The GBA includes the cities of Hong Kong, Macau, Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing, which will become part of an integrated economic and business hub.

A new Silicon Valley

The ultimate goal of the GBA is to establish something comparable to the San Francisco Bay Area. The intention is to build the GBA into a highly integrated and connected economy, with efficient flows of all sorts of resources, including capital, goods and human resources. Most importantly, the GBA economy will be driven by technology and innovations, with the goal of rivalling ‘Silicon Valley’ by 2035.

One of the first fruits of the GBA initiative was the October 2018 opening of the Hong Kong–Zhuhai–Macao Bridge – a 55-kilometre bridge–tunnel system consisting of three cable-stayed bridges, a 6.7 kilometre undersea tunnel, and four artificial islands. It is the longest open-sea fixed link on earth. What’s more, built at a cost of more than RMB 127 billion (US$18.8 billion), and designed to last 120 years, it is a testament to the anticipated longevity of the GBA initiative.

Another example of increasing GBA integration is the Express Rail Link. Also opened in 2018, it now connects Hong Kong to Shenzhen, and Guangdong with China’s extensive high-speed rail network.

A third project – the Shenzhen-Zhongshan Corridor – is expected to be finished by 2024. The eight-lane superhighway will reduce travel time between Shenzhen, Zhongshan and Jiangmen by about 30 minutes.

Roadmap to the future

That said, some critics have described the GBA plan as long on vision but limited on details. Some of those criticisms were addressed in February 2018, when Chinese policymakers unveiled the long-awaited ‘Greater Bay Area’ blueprint, which was much anticipated by real estate developers, industrialists and investors.

Once the physical integration is complete, the GBA will be ready to deliver on other pieces of the initiative – adding capabilities, increasing the value of the Chinese economy and boosting internationalisation. These are all important engines that will drive the next stage of China’s economic development.
1.3. The Belt & Road – what’s next?

China’s ambitious Belt & Road has been making international headlines since it was launched in 2013. And for good reason. The huge project, which is designed to improve trade routes between Asia, Africa and Europe, involves infrastructure developments and bilateral trade arrangements aimed at increasing China’s global strategic influence. In fact, China’s President Xi Jinping has called the BRI the project of the century, and said that ‘The plan is to lead the new globalisation 2.0.’

Time will tell whether he is correct. However, the initiative addresses China’s industrial over-capacity and facilitates trade with-and-between participating countries, while at the same time strengthening China’s diplomatic relations. It also presents strong potential for financial institutions.

Meeting the financial needs of corporates for advisory services and financing offers substantial opportunities for Chinese and foreign banks with a local presence in BRI countries. It also has significant potential as an enabler of RMB internationalisation.

China’s emerging global financial integration

China’s financial integration with the rest of the world, and increasing activities across BRI markets, will result in more Chinese banks expanding into them. That means the incorporation of new businesses supported by capital investments and, eventually, new commercial and trade flows supported by cross-border payment settlements.

Some of this is already happening. The number of branches and subsidiaries of Chinese banks connected to SWIFT in BRI countries increased by 31% between 2014 and 2018. Many of these were opened to serve State-Owned Enterprises (SOEs) and Chinese corporates involved in BRI infrastructure projects.

Expansion of Chinese banks in the BRI countries

Evolution on the number of branches of banks connected to SWIFT headquartered in China

FY 2018 vs FY 2014

Note to the reader

For the purposes of analysis the list of countries comprising Belt and Road markets is based on the World Bank list 
Part I: China on course for internationalisation (continued)

Growing capital flows between China and BRI countries

In 2016, China became the world’s second-largest source of outward foreign direct investment (FDI) after the United States. The country continues to invest in less-developed countries, where it ranks ahead of France and the United States5.

Although the BRI officially covers more than 65 countries, China’s trade and investment links are currently concentrated in a relatively small number. Indeed, in the first quarter of 2018 just ten countries, led by Vietnam, Malaysia, Russia, Indonesia and Thailand, accounted for 66.4% of China’s BRI export flows and 73.3% of its import flows. Most of China’s FDI flows to the BRI also involve a small number of markets, most notably Singapore, Malaysia, Indonesia and Vietnam6.

There has also been a surge in the growth of payments traffic along the ‘Silk Road Economic belt’ between 2014 and 2018. For example, Hungary, Turkey and Uzbekistan have enjoyed increases of 242%, 35% and 170% respectively, according to SWIFT data.

In South East Asia, Singapore has experienced payment traffic growth with China of 231% and Thailand, Vietnam and Indonesia are also reaping benefits from the BRI. However, at the other end of the spectrum, some South East Asian countries, such as Malaysia and the Philippines, have seen falls of 10% and 37%.

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5 Report jointly released by the United Nations Conference on Trade and Development (UNCTAD) and the Chinese Academy of International Trade and Economic Cooperation under the Ministry of Commerce - http://www.xinhuanet.com/english/2017-06/08/c_136350164.htm
Payments flows along the Belt & Road countries
Live and delivered, international MT 103 and 202, by value between China and Belt and road countries
All currencies, excluding central banks traffic

- Colour-filled shapes shows Belt and Road countries (not exhaustive)
- Bubble size represents the total value of direct and indirect payments sent and received with China FY 2018
- Growth FY 2018 vs FY 2014:
  - Red bubbles: negative growth
  - Green bubbles: positive growth
  - Size of bubble not up to scale

Source: Watch - Powered by SWIFT BI
Part I: China on course for internationalisation
(continued)

BRI boosting imports and exports

The Chinese General Customs Administration reported that the total value of Chinese imports and exports to countries along the BRI reached a record-breaking RMB 16.8 trillion in the first three quarters of 2018. That represents a 13.2% jump from last year. According to SWIFT data, in 2018 Import Letters of credit (LCs) growth was highest in the BRI countries of Sri Lanka, Nepal and Indonesia, with the most substantial growth of 23.2% observed in Sri Lanka.

Support from financing structures and commercial banks

In order to meet the financing requirements of the BRI, China has taken the lead in establishing large financial platforms, including the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund. More recently, developments in regional debt markets and Asian bond markets have been expedited to improve the Belt & Road financing network system. And, with support from the government, Chinese banks are issuing various credit facilities to help local corporates expand globally.

However, there is a limit on how much China can finance, and there is still a huge funding gap of up to US$500 billion a year.

Yi Gang, the Governor of China’s Central Bank, has said that China is willing to work with international organisations, commercial lenders and financial centres like Hong Kong and London, to diversify sources of funding. Foreign banks, particularly those in Europe providing significant corporate lending, are well positioned to offer finance.

Putting the BRI into perspective

The BRI may have been developed by China, but its impact is far-reaching. It has the potential to enhance economic opportunities, but there is also a downside in terms of regulatory and political complications. In some countries, BRI infrastructure projects have been welcomed as a means of facilitating trade and creating commercial opportunities while, in others, the projects have been criticised and even aborted.

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Africa – China’s new Eldorado

Xinhua.net says that China is Africa’s biggest trading partner. China passed the U.S. in 2009, and has been the largest for the last nine years. It is also the top investor in the African market. In recent years, the pace of that investment has been accelerating.

According to a piece in “Big Think”9, while the U.S. has invested an estimated US$58 billion in the African continent, China’s total has already reached US$40 billion. Moreover, although Washington announced investment plans worth US$14 billion during the U.S.-Africa Leaders Summit in 201410 and last year (2018), China said it is planning to inject a further US$60 billion10.

China’s investments mainly take the form of loans for infrastructure development. For example, in Senegal, highways, industrial parks, and other infrastructure projects are being funded by a Chinese loan of US$1.6 billion11.

Imports and exports

The most developed commercial relationship between Africa and China is the import/export trade. Estimates vary, but many experts believe that trade between China and Africa has grown by approximately 30% a year over the last 10 years. It is fuelled by a steady influx of Chinese-made goods – especially electronics, communication equipment, and vehicles – which are badly needed in most countries across the continent.

For its part, China mainly imports natural resources to support its growing population. These include petroleum products, iron, copper and other metals.

Not only has the value of trade increased, so has the diversity. China has become more interested in goods coming from Africa, while Africa now imports a significant amount of rice from China. Indeed, in places, rice has become a popular menu item, replacing some local staples.

Big continent = big business

Africa is the world’s second largest continent, both by land area and the population of its 54 countries. Of that number, South Africa, Angola and Nigeria – in that order – represent China’s three top trading partners in Africa, with imports and exports collectively worth over US$10 billion in 2017 (when you include Egypt). According to China’s Ministry of Commerce (MOFCOM), the value of Chinese trade with these three countries increased by 12%, 45% and 30% respectively year-on-year. South Africa has a huge appetite for electrical goods, machinery and vehicles. Even small items, such as cell phones and laptops are in demand, especially in urban areas, as is apparel of all kinds.

China is also the biggest destination for South African goods, with more than 10% of total exports heading east each year. That is well ahead of South Africa’s next most important trading partner – the U.S. – which accounts for a little over 5.7% of South African exports12.

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9 Big Think - 12 Aug 2018 – How China is transforming Africa into the next ‘factory of the world’
https://bigthink.com/matt-davis/chinas-growing-influence-in-africa
9 AFP report in Industry Week – 05 Aug 2014 – US Companies to Invest $14 Billion in Africa
Part II: SWIFT supporting RMB internationalisation

Angola is China’s next biggest import/export trade partner in Africa. However, Chinese exports to Angola have decreased slightly in recent years. Nigeria is in third place.

Seeing is believing

The scale of the Sino/African relationship can be seen clearly in the way commercial payment volumes have developed over time. Although volumes – both incoming and outgoing – started out quite low, the totals are increasing steadily.

Africa’s appetite for the RMB appears to be increasing. While the total amount of all currencies used for commercial China-to-Africa transactions in Q1 2019 increased by 67.05% compared with Q1 2019, the amount of RMB in the mix increased by 53.48%.

RMB payments from Africa-to-China are also growing rapidly. Analysis of SWIFT transactions for Q1 2019 shows that the total across all currencies enjoyed healthy growth of 27.76%. During the same period, the proportion of RMB used for payments increased by an eye-opening 123.01%.

Commercial payments from Africa ending in China
Live and delivered, international MT 103 sent from Africa

Commercial payments ending in Africa from China
Live and delivered, international MT 103 sent from China

Source: Watch - Powered by SWIFT BI
Some still consider the RMB to be more difficult to use than other currencies. While that might have been true once, the RMB landscape has matured significantly in recent years. This is creating more opportunities and increasing the RMB’s role as the preferred currency for Chinese companies.

SWIFT has seen RMB adoption across financial institutions continue to grow globally, with the number of banks using the currency for payments increasing steadily over the last three years.

In April 2019, 2,543 financial institutions used the RMB for worldwide payments:

- 1,671 of them involved China or Hong Kong in making international RMB payments, representing an 18% increase compared to April 2016. (These institutions are profiled in the chart below);
- Over 872 banks used the Chinese currency for payments without involving China or Hong Kong.

### Number of financial institutions using RMB for payments with Hong Kong and China

<table>
<thead>
<tr>
<th></th>
<th>YTD Apr 2016</th>
<th>YTD Apr 2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live and delivered, international payments sent and received directly with China and Hong Kong</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>153</td>
<td>165</td>
<td>+ 8%</td>
</tr>
<tr>
<td>Americas</td>
<td>467</td>
<td>491</td>
<td>+ 5%</td>
</tr>
<tr>
<td>Europe</td>
<td>1,416</td>
<td>1,671</td>
<td>+18%</td>
</tr>
<tr>
<td>World</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td>39%</td>
<td>47%</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>42%</td>
<td>52%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Watch - Powered by SWIFT BI*
2.1. SWIFT global payments innovation (gpi)

Through its platform of 11,000 users across 200 countries and territories, SWIFT provides the connectivity and reach that financial institutions involved in business growing out of the BRI need in order to operate securely and efficiently.

In China, some 430 banks, 41 corporates and 25 other financial institutions are already connected to SWIFT. Some of that success is undoubtedly due to the global payments innovation – more widely known as SWIFT gpi – which has set a new standard for global business transactions.

Launched in 2015, SWIFT gpi enables corporates to enjoy an enhanced payments service directly from their banks. Key features include:

- Same day use of funds
- Transparency on fees
- End-to-end payments tracking
- Transfer of rich payment information

SWIFT gpi was designed to help corporates grow their international business, improve supplier relationships and achieve greater treasury efficiencies, thereby addressing the primary challenges of corporates. Payments are processed faster and there is heightened visibility of incoming payments to facilitate treasury management.

Globally, more than 3,500 banks have joined SWIFT gpi. Over 50% of cross border payments on SWIFT are processed through gpi. And, in China, more than 146 banks have joined SWIFT gpi, representing 86% of all cross-border payments with China.

2.2. Chinese Financial Market Infrastructures (FMI) – connecting China to the world

China is investing in long-term international and domestic securities market frameworks that support the internationalisation of the RMB.

In the past few years, Chinese regulators have reinforced their commitment to opening up China’s capital markets to foreign investors by launching several highly successful pilot programmes associated with overseas markets. For instance, Chinese Financial Market Infrastructures (FMIs) are providing cross-market access that leverages the ‘Connects’ between the Mainland and Hong Kong, including the Stock Connect Scheme launched in 2014, and the Bond Connect Scheme launched in 2017.

These Connects are innovative frameworks, providing cross-market access that leverage the ‘One-Country-Two-Systems’ relationship between Mainland China and Hong Kong’s well-established market infrastructures. They are also aligned with international standards. Further opening-up will be the key theme for China’s capital markets in 2019. Chinese FMIs are likely to become much more integrated with global capital markets in the following ways:

- Further enhancement of existing Mainland China-Hong Kong Connect schemes to bring them further into line with global practice.
- More direct Connects will likely be established between China Securities Market Infrastructures (SMIs) and international SMIs located beyond Hong Kong.
- More domestic links among different central Securities Depositories and exchanges to facilitate the development of derivatives transactions and collateral management.

To achieve the above initiatives, China SMIs will face challenges in controlling operational risk, streamlining processes and managing costs, especially when facing so many different infrastructures and market practices.

SWIFT’s view is that the ultimate adoption of ISO standards for clearing and settlement by China’s regulators, clearing houses and institutions – and the globally established market practices that have been developed around them – would be hugely beneficial. Both for China’s investors establishing a global presence, and for international investors moving into the country.
2.2.1. Cross-Border Inter-Bank Payments System is making a difference

One of the biggest hurdles China has faced in internationalising the RMB has been changing the perception that it is a difficult currency. Using the RMB became a lot simpler in 2015 when the People’s Bank of China launched CIPS – the Cross-Border Inter-Bank Payments System – which facilitates RMB clearing and settlement for mainland Chinese financial institutions and companies conducting cross-border and offshore business.

The impact of CIPS has been impressive. It has been credited with contributing to the opening up of China’s capital markets, as well as bringing more product innovation opportunities to the global RMB market. SWIFT is also helping to make the payment process even simpler, and earlier this year, it signed a letter of intent with CIPS to deepen cooperation in cross-border payment services and support the RMB’s further internationalisation.

Overview of the key features of CIPS-facilitated RMB cross-border payments

<table>
<thead>
<tr>
<th>Features</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating hours</td>
<td>Covers the majority of RMB payments markets, including Asia, Europe and Oceania. The aim is to eventually operate round the clock.</td>
</tr>
<tr>
<td>24 hours (business days only)</td>
<td></td>
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<tr>
<td>Direct and indirect participants</td>
<td>The introduction of more participants will lead to greater access for key financial market infrastructures and offshore financial institutions. CIPS’ functions support the expansion of overseas direct participants.</td>
</tr>
<tr>
<td>ISO 20022 messaging standard</td>
<td>- Reduced operational costs.</td>
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<tr>
<td></td>
<td>- Increased straight-through-processing rates (STP) for cross-border RMB payments.</td>
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<tr>
<td>Unique global identifier</td>
<td>- Simplified payments processing for overseas banks.</td>
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<td></td>
<td>- Improved accuracy for cross-border RMB payments and more efficient system processing.</td>
</tr>
<tr>
<td>SWIFT gpi-enabled</td>
<td>- End-to-end processing of RMB cross-border payments to Chinese beneficiaries.</td>
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<tr>
<td></td>
<td>- Faster (same-day) processing.</td>
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<td></td>
<td>- Transparency in terms of fees.</td>
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<td></td>
<td>- Real-time tracking capabilities.</td>
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Part II: SWIFT supporting RMB internationalisation (continued)

2.2.2. Stocks and bonds gaining momentum

Bond Connect has been gaining momentum since it was launched in July 2017. It offers the China Interbank Bond Market (CIBM) access to a broader group of international investors. Participants have welcomed the scheme’s streamlined and simplified admission procedure and other access benefits.

The innovations under Bond Connect are most manifested in the areas of market admission, in terms of pre-trade, price discovery and efficiency in trading, and in post-trade settlement arrangements. It effectively connects the Mainland bond market with international practices, at lower access costs and higher market efficiency.

Stock Connect is a unique collaboration that represents a significant step in the reform and liberalisation of China’s capital markets. Launched in November 2014, today the scheme covers over 2,000 eligible equities in Shanghai, Shenzhen and Hong Kong.

By linking the Hong Kong, Shanghai and Shenzhen exchanges, Stock Connect enables international and Mainland Chinese investors to trade securities in each other’s markets, using the trading and clearing facilities of their home exchange.

4.3. Holistic approach helps banks and corporates going global

SWIFT provides a financial and digital infrastructure for the scalable, reliable and secure conduct of business and trade across BRI markets. It offers extensive connectivity and reach across 11,000 institutions around the world, including 430 in China, and connects corporates, financial institutions and financial market infrastructures. This makes SWIFT a critical enabler of business between China and the rest of the world.

A range of ancillary products and services including business intelligence, financial crime and compliance, reference data and interfacing ensures that financial flows between economies and their institutions are efficient and standardised. Ultimately, SWIFT is a neutral financial industry cooperative operating in 200 countries and territories, with robust governance and community engagement models. By ensuring that the right problems are solved, SWIFT brings value to stakeholders and users of SWIFT – in China or anywhere across the globe. The portfolio of products and services has been designed to cover the entire transaction value chain within a bank – from client initiation to the monitoring of currency flows – to minimise the risk of money laundering.

The key stages are:
- Initiation
- Onboarding
- Transacting
- Support/servicing
- Monitoring

Each stage involves different departments within the bank, including the Front office and Due Diligence teams, and each one has specific challenges and pain points.

A set of products and services is available for each stage, to minimise risk, facilitate the onboarding process and reduce manual reconciliation processes within a bank.
In an era of trade disputes and rising protectionism, tensions between China and the US are having a mixed effect on the global economy. But these pressures are mere perturbations for Beijing’s longer-term vision.

Chinese President Xi Jinping’s vision for China is a ‘two-stage development plan’, a perpetuation of the grand strategy of Deng Xiaoping, the country’s former paramount leader. Under Deng’s tenure, China’s strategic objective was to become a developed country by 2050. Deng’s longer-term vision, which became the guiding principle for China’s economic reform and opening-up policy, was to be achieved in three stages.

The first was to double GDP in both real and per capita terms by the late 1980s. The second was to double GDP and GDP per capita again by the end of the 20th century. The final stage would be achieved after another 50 years.

Xi’s plan, in which the first stage between 2020-35 builds on China’s modern economy, and the second between 2035-50 nurtures China’s influence on the global stage, can be viewed as a rendering of the final stage of Deng’s strategy.

Deng and other Chinese leaders have always emphasised that rapid growth could not be achieved without a stable external international environment. But China’s unprecedented economic expansion has exerted a powerful gravitational force on the world economy. Infrastructure development has been integral to China’s growth and has a vital role to play in helping stabilise the global economy. China is transferring its development knowledge around the world through its Belt and Road infrastructure programme. Bolstered by its deep pools of capital, China’s global economic expansion is increasingly built on ports, highways and pipelines, constructing a comprehensive trade network for Chinese goods.

Beijing is delivering enormous investments around the world. Outward foreign direct investment, international trade and the movement of large numbers of tourists from China boosts markets globally. This offers China a means by which to internationalise its financial sector and its currency, the renminbi.

As US President Donald Trump’s administration bids to curb China’s rise, the renminbi has been at the centre of much misinformation. But, as US economist and OMFIF Advisory Board Member Steve Hanke has put it, the ‘dollar remains king, and when it comes to currencies, kings are hard to dethrone.’

For countries with a high proportion of economic integration with China, it makes sense to use the renminbi. As well as potentially lowering exchange rate risks, China’s central and state-owned banks have been putting in place the infrastructure to reduce the cost and difficulty of cross-border renminbi transactions. However, China’s financial system remains far from globalised.

China retains a relatively closed capital account. Until that changes, renminbi internationalisation may be sluggish. There is still insufficient breadth and depth in the Chinese financial market, but the future of its bond market is extraordinarily important for the global financial system. It has been growing rapidly and plays an increasingly important role at home and abroad. The inclusion of Chinese bonds in global indices will be a major milestone for the country’s financial market integration. A well-developed bond market will also contribute to the internationalisation of the renminbi.

China’s relationship with the world is at a turning point; the realisation of Deng’s vision may come sooner than expected.
About SWIFT and RMB Internationalisation

Since 2010, SWIFT has actively supported its customers and the financial industry regarding RMB internationalisation through various publications and reports. Through its Business Intelligence Solutions team, SWIFT publishes key adoption statistics in the RMB Tracker, insights on the implications of RMB internationalisation, perspectives on RMB clearing and offshore clearing guidelines, as well as engaging with offshore clearing centres and the Chinese financial community to support the further internationalisation of the RMB.

SWIFT fully supports global RMB transactions through its global network and messaging services, as well as RMB-focused value added services. SWIFT also has strategic collaboration with CIPS, facilitating more efficient RMB cross border payment transactions.

Please visit www.swift.com for more information about RMB Internationalisation or join our new ‘Business Intelligence Transaction Banking’ LinkedIn group.

Support your RMB strategy with fact-based insights

The growing importance of the RMB currency and its role in financial markets is evident. Because of this, financial institutions and corporates have already started to build their RMB strategy or are planning to do so in the near future but need more fact-based information to identify where their organisation stands.

To support banks’ strategic development, SWIFT Business Intelligence provides insights into the use of all currencies, including the RMB. In order to obtain more granular market information on the internationalisation of the RMB as well as a competitive framework, SWIFT has developed three solutions:

– The Watch platform, a portfolio of online reporting and analytical tools that allows banks to access unique analysis and insights into their correspondent banking business through volume, value and currency analysis, as well as compare their performance against the market.
– RMB Market Insights analysis report provides fact-based quarterly market analysis using unique data only available from SWIFT Business Intelligence
– Similarly, the customised RMB analysis leverages SWIFT’s unique data and provides crucial peer competition and strategic insights to optimise your business and support your decisionmaking.

For further information about SWIFT’s Business Intelligence RMB Consulting Services and the full Business Intelligence portfolio, please visit swift.com or e-mail Watch@swift.com

FX Performance Insights

The FX market is one of the largest in the world but as a decentralised market it is very difficult to compile accurate amalgamated metrics. There isn’t one “exchange” where every trade is recorded. At Sibos 2016, SWIFT announced a new FX service that allows its customers to continuously measure their FX business performance and make more informed strategic decisions, based on metrics derived from actual transactions rather than survey-based information:

– SWIFT FX Performance Insights enables you to continuously measure your FX business performance against those of your peers, and so make more informed strategic decisions, based on metrics derived from actual transactions rather than survey-based information.
– This benchmarking service can be customised based on your selected parameters, such as product group (cash, options), currency, customer segment (Investment managers, Corporates, Custodian ‘Insourcers’…) and region.
– The service deliverables are a set of monthly reports provided in a PDF based layout. Individual details on each of the peers, anonymised except for that of the subscriber, are shown in order of ranking for that month.

For further information about SWIFT FX Performance Insights, please visit swift.com or e-mail Watch@swift.com
About SWIFT

SWIFT is a global member-owned cooperative and the world’s leading provider of secure financial messaging services.

We provide our community with a platform for messaging and standards for communicating, and we offer products and services to facilitate access and integration, identification, analysis and financial crime compliance. Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories, enabling them to communicate securely and exchange standardised financial messages in a reliable way.

As their trusted provider, we facilitate global and local financial flows, support trade and commerce all around the world; we relentlessly pursue operational excellence and continually seek ways to lower costs, reduce risks and eliminate operational inefficiencies.

Headquartered in Belgium, SWIFT’s international governance and oversight reinforces the neutral, global character of its cooperative structure. SWIFT’s global office network ensures an active presence in all the major financial centres.

For more information, visit www.swift.com.

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