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***SUBMISSION TO THE HOUSE OF COMMONS FINANCE
COMMITTEE FROM THE BRITISH COLUMBIA MINISTRY OF
FINANCE***

A PAN-CANADIAN “RENMINBI HUB”

The Importance of the Renminbi (RMB)

China is now the second-largest economy in the world, the largest trading nation, and China’s currency – the Renminbi – is now the fifth-largest global currency in terms of value of payments.

When businesses trade internationally, the currencies involved must be converted to execute the transactions.

Traditionally, the RMB has not been easily or freely convertible to other currencies. For Canadian businesses trading with China, currency conversions have generally been made into US dollars, and then from US dollars into RMB – doubling exchange rate commission costs.

British Columbia has seen the value of its exports to China rise to represent about 20 per cent of BC’s total exports – a significant increase from 4 per cent only a decade ago. That is why measures to reduce transaction costs will facilitate and improve Canadian and BC trade with China.

BC’s entry into the RMB currency market

Governments and corporations often borrow money by issuing bonds. In November 2013, British Columbia was the first foreign government to issue a bond denominated in China’s Renminbi – the bond raised RMB 2.5 billion (Cdn \$428 million equivalent). A second BC issue was launched in late 2014, raising RMB 3 billion (Cdn \$559 million equivalent). BC is now the largest foreign government issuer in this market along with the United Kingdom.

In addition to expanding our market for borrowed funds, the bond issues raise the Province’s profile in Asia Pacific financial markets, recognize the internationalization of the RMB, and enhance the trade linkages and relationships between BC and China.

The Significance of RMB Transactions for Business and Investment

The advantages of RMB denominated-trade for BC and Canadian businesses trading with China

are significant. A recent study by the Canadian Chamber of Commerce estimated that allowing direct trade in RMB could save Canadian firms up to \$6.2 billion over 10 years by reducing transaction costs, and increase exports in the range of \$21–\$32 billion, and BC would share significantly in these gains.

Significant advantages to the forest industry in particular are likely because it is an industry with highly competitive prices in which the use of RMB could make a significant cost difference in a competitive bid situation. Moreover, Chinese firms express a strong preference for use of their local currency.

To illustrate, consider a significant representative forest company in B.C. that would export to China, for example, \$250 million per year in wood products. Applying HSBC Bank's expectation that, on average, exporters who trade in RMB derive benefits in the order of 3%, there is potential for additional revenues to this forest company of about \$8 million, plus the benefits that can be afforded from a stronger business relationship.

A 3 % benefit on the \$1.8 billion of wood product sales to China in 2013 would equal \$54 million, monies that can be usefully put to work by industry to be more productive and competitive.

The Next Step: An RMB Hub in Canada

A currency “hub” is essentially a clearing house for the exchange or conversions of foreign currencies into one another. A modern hub is not necessarily conceived of as a physical location, but more as a computerized trading platform which is managed by private sector financial institutions and which facilitates such transactions quickly and efficiently.

This past fall, Canada was designated as an international RMB trading hub – one of only 10 in the world and the first in North America. The B.C. government collaborated extensively with the federal and Ontario governments, as well as the private sector, to support the designation.

Creation of the hub recognizes the international importance of the RMB and its increasing use in international trade. Designation of Canada as an international RMB trading hub plays to BC's strength as the Canadian province that trades most with China.

Since early 2014, the governments of BC and Ontario, with the support of the Canadian government along with private sector partners such as Advantage BC and the Toronto Financial Services Alliance, have been working to bring an RMB hub to this country – now we have succeeded.

On November 8, 2014, a memorandum of understanding between the Bank of Canada and the People's Bank of China was signed, which will establish Canada as North America's first offshore RMB hub. The agreement has the full support of the governments of BC and Ontario. The Hub will offer opportunities for businesses across Canada to undertake RMB-denominated trade, investment and banking. It will also allow Canadian asset managers to purchase, on behalf of their clients, RMB-denominated bonds and equities from Mainland China.

The government intends to coordinate and actively work to promote the use of the hub by the business community over the coming year, and will collaborate with the federal and Ontario governments, as well as industry. The first priority will be to promote the benefits which can flow to Canadian business from RMB-denominated trade and investment. This will require active marketing and education, and the government has set aside a modest budget to support these efforts in British Columbia including sponsorship of key business forums and workshops on how to recognize the economic opportunity and realize it through contractual arrangements with Chinese firms.