

Establishing an RMB Trade and Investment Hub in Canada

Summary and Excerpts from the Working Group on International Financial Services for BC Report

AdvantageBC – International Business Centre - Vancouver

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In September 2014, the Honourable Mike de Jong, British Columbia Minister of Finance convened the Working Group on International Financial Services for BC, chaired by Colin Hansen, President and CEO of AdvantageBC. The group investigated the opportunity for Canada to become the next global RMB Hub for banking, investment and trade settlement. In November 2014, the Governments of Canada and China announced that Canada would be designated as a RMB Settlement Hub to serve – not just Canada – but to serve all of the Americas.

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Foreword

The internationalization of China’s currency, the Renminbi, has rapidly accelerated in recent years — first in Asia, then in Europe — in parallel with the country’s continually growing trade and investment flows globally. The Chinese government has been appointing clearing banks overseas in an effort to boost the use of the RMB with the end goal of becoming a global reserve currency.

According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), as of January 2015, the Chinese yuan has become one of the top five most-used currencies in the world, moving ahead of the Australian and Canadian dollar.

In November 2014, the Governments of Canada and China announced that Canada would be designated as a RMB Settlement Hub to serve – not just Canada – but to serve all of the Americas. The announcement included a bilateral swap line of RMB 200 billion between the Bank of Canada and the People’s Bank of China, a Renminbi Qualified Foreign Institutional Investor (RQFII) quota of RMB 30 billion and, the following week, the Industrial Commercial Bank of China was designated as the clearing bank.

In September 2014, the Honourable Mike de Jong, British Columbia Minister of Finance convened the Working Group on International Financial Services for BC, chaired by Colin Hansen, President and CEO of AdvantageBC. One of the first tasks of the Working Group was to investigate the opportunity for Canada to become the next global RMB Hub for banking, investment and trade settlement. Specifically, the Working Group looked at the potential for a “Pan-Canadian” RMB Trade and Investment Hub leveraging the relative strengths of both Toronto and Vancouver.

The report was finalized and circulated to key federal officials in October, 2014 prior to the November 2014 announcement. Given the globally recognized strength of the Canadian banking system, Canada could serve as an ideal RMB trade and investment Hub to serve the Americas.

The Working Group also explored what was needed from the private sector to ensure firms were ready to handle business, banking and investing in a world which recognizes the growing significance of the RMB in global commerce. Private sector leadership and engagement is a requisite for Canada to be a successful and sustaining RMB Hub.

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Background

RMB for International Financial Services

Our global reputation of political stability and regulatory certainty, along with our future looking economic development strategies, existing momentum and high levels of engagement with Asia have ideally positioned Canada to fill a global gap in the use of the RMB for international financial services.

By filling this niche, we have the ability to expand exports while creating additional millions in other economic spinoffs that will be distributed across Canada from coast to coast. Realizing this opportunity however, requires a pan-Canadian approach that fully leverages our strengths in Canada's top global financial centres, Vancouver and Toronto, as well as the supporting centres such as Calgary and Montreal.

By working collaboratively across the country, we can leverage our full suite of strengths and advantages, which will be critical to realizing Canada's fullest potential.

Report Objectives

Pan-Canadian Renminbi Settlement Hub

The aim of this report is to demonstrate Canada's strengths as an RMB Trade and Investment Hub that could provide RMB-denominated financial services to both Canadian and Chinese corporations, as well as to the rest of the Americas, including the United States, Mexico Central and South America.¹

- The report highlights a pan-Canadian model that would be anchored by the complementary strengths of both Toronto and Vancouver - Toronto as Canada's pre-eminent financial capital, and Vancouver as the primary location for settling China-Canada trade accounts.
- The Hub would be inclusive and encourage other Canadian and North American cities to leverage their economic relationship with China and promote use of RMB-denominated business.

¹ Working Group on International Financial Services for BC – Establishing an RMB Hub in Canada, October 2014

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Summary of British Columbia's RMB Advantages

BC's Economic Relationship with Asia

BC has a special economic relationship with Asia, building on its already strong trade (largest volume of trade of any Canadian province with China), investment, and demographic/cultural ties that extend to tourism and education. The significant and growing investment from China and other Asian economies into BC's resource sector generates opportunities for Canadian and international financial institutions to become more closely involved in the financing of major projects.

- BC has grown its exports to China by 4.5 times in the last decade (\$1.2 billion in 2004 to \$6.6 billion in 2013).
- Over the past six years, BC has attracted significant amounts of Chinese foreign direct investment, primarily spurred by the global competition to secure energy supply.
- One of BC's principal strengths as a financial centre in Canada is its role in settling trade accounts vis a vis Canada's trade with Asia.
- Trade transactions benefit from proximity to BC's ports in order to move trade documentation to financial institutions for completion.

BC's Financial Strengths

Vancouver is rapidly climbing the ranks of the world's financial centres – from 33rd on the Global Financial Centre Index in 2008 to 14th in 2014. As Canada's second largest financial centre², Vancouver's financial strengths have grown significantly in recent years in both volume and diversity of services - from 33rd on the Global Financial Centre Index in 2008 to 14th in 2014.

- Vancouver currently has over 3,300 companies in the finance and insurance sector; over 30 companies in this group have more than \$50M in annual sales³ and 383 companies have their corporate headquarters located in Vancouver⁴.
- All five of Canada's largest banks have significant operations in Vancouver.
- One of the fastest growing areas of financial services in Vancouver is in the area of wealth management; Vancouver is ranked among the top 10 wealth management centres in the world.
- In November 2013, BC became the first foreign government to issue a so-called "Dim Sum" Bond, raising RMB 2.5 Billion (CDN 425m). One year later, in November 2014 BC issued a

² Global Financial Centre Index - ranks the financial centres of global importance with: Toronto at #11, Vancouver at #14 and Montreal at #18 and the Conference Board of Canada's

"A Head for Finance: Growing Financial Services in Toronto" lists Vancouver as second to Toronto in terms of numbers of financial services headquarters.

³ Hoover's Inc., a subsidiary of The Dun and Bradstreet Corporation, October 23, 2014

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second “Dim Sum” Bond, raising RMB 3 Billion (CDN \$550m). HSBC acted as lead manager and the Bank of China and ICBC acted as co-managers. Both bonds were oversubscribed.

The presence of these global financial institutions, as well as the strength of the Canadian banking industry in Vancouver, contribute to a solid and fortified financial infrastructure which is capable of handling the trades and volumes necessary for a substantial and reliable RMB Trade and Investment Hub.

BC’s Strengths in Human Capital

BC has significant strengths in human capital, with a skilled, multi-lingual workforce, and world-class post-secondary institutions with significant research capacity.

- Employment in the finance and insurance industry in BC has grown steadily in the last five years, with 96,200 workers employed in the sector in 2013, an increase of 11.3% since 2009.⁵
- BC boasts a large multicultural and diverse workforce, with a significant population having a working knowledge of Mandarin and Cantonese, including professional service providers such as legal experts, accountant and consultants.
- A total of 78% of British Columbians, more than any other province, believe we should facilitate trade and investment for Asian companies in Canada, with a further 63% believing that Canada would benefit from more Asian investment in the country, again more than any other province⁶.

BC’s Business Environment

As a globally recognized, competitive business location, BC offers low taxes, a tax incentive program targeted to international financial services institutions, and a stable political and regulatory regime.

- Canada and BC have lowered overall corporate taxes to 15% and 11% respectively. BC is acknowledged to have a competitive tax regime with among the lowest corporate taxes in the G8. Individuals in BC who earn up to \$121,000 pay the lowest provincial income tax in Canada.
- A recent study from KPMG, Competitive Alternatives 2014: Focus on Tax, revealed that Canada remains the most tax-competitive country for business globally with the lowest total tax index (TTI) at 53.6.⁷ The top three spots on the ranking were all Canadian cities: Toronto has a score of 51.6, Vancouver is 54.5 and Montreal comes in at 55.6.

⁵ Statistics Canada, Labour Force Survey

⁶ Asia Pacific Foundation National Opinion Poll, 2013.

⁷ The study allocates a benchmark TTI score of 100 to US major cities and measures other major cities around the world against that score. See: competitivealternatives.com. “A Highly Competitive Tax Landscape” by Howard Silverman, Location Canada, 2014.

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- One of BC's main incentive tools, the International Business Activity (IBA) program administered by AdvantageBC, provides companies doing business in the province up to a full refund of BC corporate taxes paid on eligible international business activities and transactions.

BC's Asia Pacific Gateway

Vancouver's Gateway location in the Pacific time zone ensures that a pan-Canadian Hub can help provide 24- hour coverage for global RMB transactions and timely and accessible transit for people and goods both into Asia and into the Americas region.

Given the time zone differences between Toronto and Vancouver, this pan-Canadian approach would be ideal for businesses in the Americas during the hours which overlap with Europe (to be served by operations in the Eastern Time Zone), as well as business hours in Asia (which would overlap with the Pacific Time Zone). A pan-Canadian Hub to serve the Americas would allow for seamless coverage from the end of the business day in Europe, through to the start of the working day in China. This connectivity would allow commercial transactions to maximize certainty, to make timely payments, and to manage transactional investigations.

AdvantageBC International Business Centre Vancouver

AdvantageBC International Business Centre Vancouver has been promoting British Columbia as a location for international investment since 1986. The association promotes a tax incentive under the International Business Activity (IBA) program that makes BC one of the world's most competitive locations for corporate tax rates.