

## Anselmo Teng: The ascent of new currencies in a multipolar world

Address by Mr Anselmo Teng, Chairman of the Monetary Authority of Macao, at the Central Bank of Brazil – Official Monetary and Financial Institutions Forum (OMFIF) inaugural meeting in Latin America “Latin America’s place in the new international financial and monetary architecture”, Central Bank of Brasil, Brasilia, 18 June 2013.

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Distinguished guests,

Ladies and Gentlemen,

1. First of all, I would like to thank the Official Monetary and Financial Institutions Forum (OMFIF) and the Central Bank of Brazil (BCB) for their invitation and hospitality. It is indeed an honour for me to participate in the Inaugural Meeting of OMFIF in Latin America. I am especially pleased to have the opportunity to share with you my thoughts about *The Ascent of New Currencies in a Multicurrency World*, through a perspective from the other side of the globe.

### Traditional reserve currencies and alternative currencies

2. Recent financial crises in advanced economies have wrecked havoc in financial markets of emerging-market economies (EMEs), including those of Asia with strong economic fundamentals. The extensive use of traditional reserve currencies in merchandise-trade invoicing and settlement has created uncertainty in bilateral trade between EMEs, even though this sort of trade does not involve advanced-economy partners. Wild fluctuations of cross rates among non-reserve currencies have inhibited normal trade flows among EMEs, hampering the comparative advantage of their exporting sector. Also, the vulnerability towards the access to funding of reserve currencies during stress periods has generated pressure on offshore interbank markets, which proves to be contagious and spread to trade finance activities. This sequence of events underscores the practical need to promote the use of regional currencies in intra-regional trade and to facilitate increased use of non-traditional reserve currencies in international trade and finance.
3. According to a recent World Trade Organisation paper on the use of currencies in international trade, almost all non-reserve currencies are viewed as underutilised, i.e. their shares in world payments are far less than their shares in international trade. On the contrary, the use of major reserve currencies disproportionately exceeds their shares in international trade. It is also observed that reserve currencies are widely used in third-party trade, i.e. trade actually not involving reserve currency-issuing countries. Therefore, there is plenty of room for alternative currencies to grow, especially in terms of use in bilateral trade between EMEs themselves.
4. Currencies of major EMEs, in particular the renminbi (RMB), the currency of the second largest economy in the world by GDP and international trade, have exhibited their potential to broaden their use in international transactions. Such a lasting phenomenon of re-balancing not only allows the international circulation of regional currencies to better reflect their countries' increasing proportion to international trade and economic gravity, but also lessen monetary shocks spilt over from advanced economies to EMEs.
5. According to global economic statistics, the US is the biggest economy in the world. Its GDP in 2012 amounted to USD15.7 trillion. China ranked second as the GDP in 2012 went up to USD8.2 trillion, equivalent to 52.2% of that of the US while Japan

- ranked third. An analysis of the import/export value of these three nations will produce another set of more convincing data. The US imports about USD2.3 trillion annually while China's import has risen to USD1.8 trillion yearly. It is worth mentioning that China has all along been a big export country. The increase in import purports enhancement of its national might and increasing demand arising from its consumer market. The third biggest global economy Japan has an annual import of only USD880 billion, less than half of China's figure. The country which closely follows China in this respect is Germany with an annual import of USD1.2 trillion.
6. From the above, we can see that China, as one of the emerging markets, is gradually changing its role in the international trade from "world factory" of manufactured goods for export to an important import country in the world. It was announced in a recent international forum that in the next five years, China would import goods valued at about USD10 trillion, while overseas investment would amount to USD500 billion. Outbound visitors from China would reach 400 million. On the other hand, trade between China and Latin America reached USD241.5 billion in 2011, twenty times that of the year 2000. It is forecasted that it will reach USD400 billion in five years' time. Being the number one trading partner of Brazil, China's export to Brazil reached USD33.4 billion, while import from Brazil reached USD52 billion, making a total turnover of USD85.4 billion in 2012. The economic development forecast reflects the commitment of China in global economic development, which has injected vitality to motivate the growth of the world economy.
7. As aforementioned, China has transformed into a significant importing country. In the process of trade activities, it should have more say in picking the settlement currency for the transactions, through which more frequent use of RMB in cross-border transaction can be facilitated. The process of the internationalization of the RMB can thus be enhanced. In July 2009, the People's Bank of China and relevant ministries of the State Council of China jointly promulgated the "Management of Cross-Border RMB Trade Settlement Pilot Programme", which was a pivotal step of the endeavour to promote the internationalization of the RMB. With the incessant expansion of the pilot units, virtually all Mainland enterprises which are qualified to import and export can have a free hand in using the RMB to settle all transactions with their trade partners globally.

### **The Macau Special Administrative Region (MSAR) and its banking system**

8. Macau is a special administrative region of China. Since its return to the Motherland on 20 December 1999, the overall economy of Macao has been expanding at a compound rate of 12.4% p.a. In 2012, per capita income exceeded USD76,000. Macao is always an advocate of free market system, there is no exchange control; the financial markets and institutions operate freely; there is free flow of funds into and out of the MSAR, which together laid down the foundation of its fine system. There are 29 banks operating in the Macao banking system. They are of different origins: Mainland China, Chinese Taiwan, HKSAR, Singapore, the US, the UK and Portugal.

As of April 2013, RMB deposits in Macao accounts for about 10% of the deposits in the banking system. There is a marked progress in the RMB cross-border trade settlement despite a slow start. Cross-border trade settlement transacted in 2011 increased substantially by 10 times from 2010 and the value in 2012 continued to record an increase of over 60%. In the first quarter this year, the substantial growth continued; the value of cross-border trade settlement rose by almost 80% and already reached 40% that of last year.

## **9. RMB services and products in the Macao banking system**

RMB business only covered individuals and selected sectors when it first started in Macau in 2004. With years of development and policy support, Macao banks can provide overseas corporations a variety of RMB services and products, including deposit-taking, currency exchange, remittance, financing, and wealth management etc. All corporations including overseas companies can open RMB deposit account and exchange RMB with banks in Macao. Banks operating in Macao can offer foreign corporations diversified trade settlement services and products, such as RMB trade settlement account; RMB exchange and remittance for trade settlement purpose etc., as well as tailor-made RMB import and export trade finance. Banks in Macao can also offer corporations a full range of RMB commercial financing as well as RMB non-deliverable forward (NDF) and RMB deliverable forward (DF) to help corporations hedge against RMB exposures. Commercial entities and financial institutions can issue RMB bonds in Macao. They can also apply RMB funds directly in the investment products offered by the banks in Macao, or via Macao in the offshore RMB market in Hong Kong.

## **10. Reasons to consider doing RMB business through Macao**

- ***Macao has been exploiting its special geographical and historical condition in performing its liaison platform function between Mainland China and Portuguese-speaking countries*** – Macao is the only city in China to maintain such special relationship with Portuguese speaking countries (including Angola, Brazil, Cape Verde, East Timor, Guinea Bissau, Mozambique, Portugal and St Tomé e Príncipe). The Central Government of China attaches much importance to it. As early as in 2003, the standing secretariat of the “Forum for Cooperation and Development between China and Portuguese Speaking Countries” was set up in Macao. In November 2010, the then Premier of the State Council, Mr. Wen Jiabao, visited Macao for the 3rd Ministerial Meeting of the “Forum for Economic Cooperation between China and Portuguese Speaking Countries”. He announced a series of policy measures to promote Macao to be the platform for economic cooperation between the countries. He hoped that Macao would perform “core function” in promoting RMB trade settlement in the process, which would further embody Macao’s position as platform for economic cooperation between China and Lusophone countries. In fact, Macao is also in a good position to extend this platform function to countries in Latin America.
- Recently, there is an increasing rise in economic activities between China and Lusophone countries. Trade volume with the 8 Lusophone countries amounted to USD128.8 billion in 2012, which was a 10.1% increase year-on-year. There is a great demand in the market for related financial services. Macao can fully embody its platform function by providing solid financial support services for trade. With this competitive edge and as platform, the aforementioned RMB banking services and products can be targeted towards Lusophone countries. They can also be extended to countries in Latin America.
- ***The financial cooperation between Macao and Portuguese-speaking countries has gained remarkable achievements*** – Some Chinese-based banks in Macao have executed business cooperation agreements with financial institutions in some Portuguese-speaking countries. For instance, the Bank of China (Macao Branch) has signed protocols with Banco de Fomento Angola S.A.R.L., Moza Banco,S.A. and Banco BPI S.A. Also, ICBC Macao has signed cooperation agreements with Banco Espírito Santo and Millennium BCP. Meanwhile, the parent banking groups of branches of Portuguese banks in Macao have extensive banking networks in Lusophone countries. On the other hand, through the branches or subsidiaries established in Macao, Mainland banks have also strengthened their interaction with

overseas counterparts. The interaction and cooperation between Chinese banking groups and Portuguese banking groups through Macao as the platform can be extended and utilized. The network can also be very much extended.

### **RMB as an investment instrument**

11. The development of the RMB as an investment instrument has increasingly drawn global attention. Only within a few years, billions of “Dim-Sum” bonds, CDs and investment funds have been developed in the offshore RMB market of Hong Kong. The extensions of the QFII and RQFII scheme also allow eligible investors different choices of investment products onshore and offshore. The city of Shanghai is now busy in setting up all necessary financial architecture and facilities, as it is on its way to be the onshore RMB centre. Such facilities include RMB Asset Management Centre, RMB Cross Border Settlement Centre and RMB Financial Products Innovation Centre etc. On the other hand, the Guangdong Province, the pioneering region for China's economic reforms, has formulated major development projects in Qianhai and Hengqin for RMB businesses, both are regarded as pioneering regions for financial businesses developments amongst others.
12. The Monetary Authority of Macao, in the course of managing the fiscal reserve of the government, has invested in the onshore market through the CIBM quota (i.e. China Interbank Bond Market quota) approved by the People's Bank of China. We also invest in the RMB offshore market in Hong Kong as a supplement to the onshore RMB portfolio. From a more global perspective and looking ahead, along with an increasing weight in the RMB in global trade settlement and a rising investment interests from abroad, the internationalization path of the currency would lead to more market opportunities, both for the domestic mainland investors and offshore international investors.
13. For currencies of major EMEs such as the RMB to gain shares being occupied disproportionately by traditional reserve currencies, their financial markets would need to be further reformed to make them large, liquid and internationalised, against the backdrop of a consistent relaxation in foreign exchange control policies. These markets should be made accessible to non-residents on demand and be able to supply the currencies in sufficient quantities.
14. At the moment, there is a clear division of labour between the two leading financial centres of China; Shanghai is the onshore RMB Centre and is in good progress in developing as an international financial center while Hong Kong focuses on offshore activities. The development of other offshore RMB center such as London, Singapore and Chinese Taiwan are also picking up speed.
15. Macao's strong relationship with Hong Kong, Shanghai and the Guangdong province, coupled with its unique ties with Portuguese-speaking countries, clearly facilitate the SAR's development into a service platform for the fast-growing trade and investment activities between Mainland China and Portuguese-speaking countries, as well as other countries including countries in Latin America. With its open and stable financial system, Macao is well-prepared to actively engage in the next step of the internationalisation of RMB and the apparent ascent of the RMB in a multicurrency world.
16. Finally, I am glad that I have the opportunity to share your experiences and thoughts on this subject. May I also wish every success for this inaugural Main Meeting. Thank you!