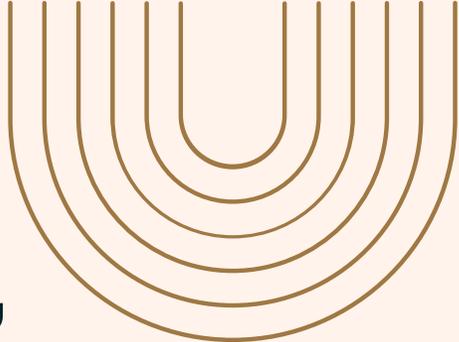


Facilitating China-Malaysia Trade and Investment Cross-Border Financial Services Promotion Forum

RMB Usage in China-Malaysia's Cross-Border Payments

Lee Heng Guie
Executive Director
30 November 2023



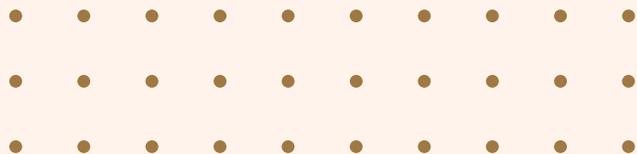


Globally, the use of RMB remains small, accounting for 3.6% of total cross-border transactions

Increasing calls about de-dollarization and renminbi internationalisation

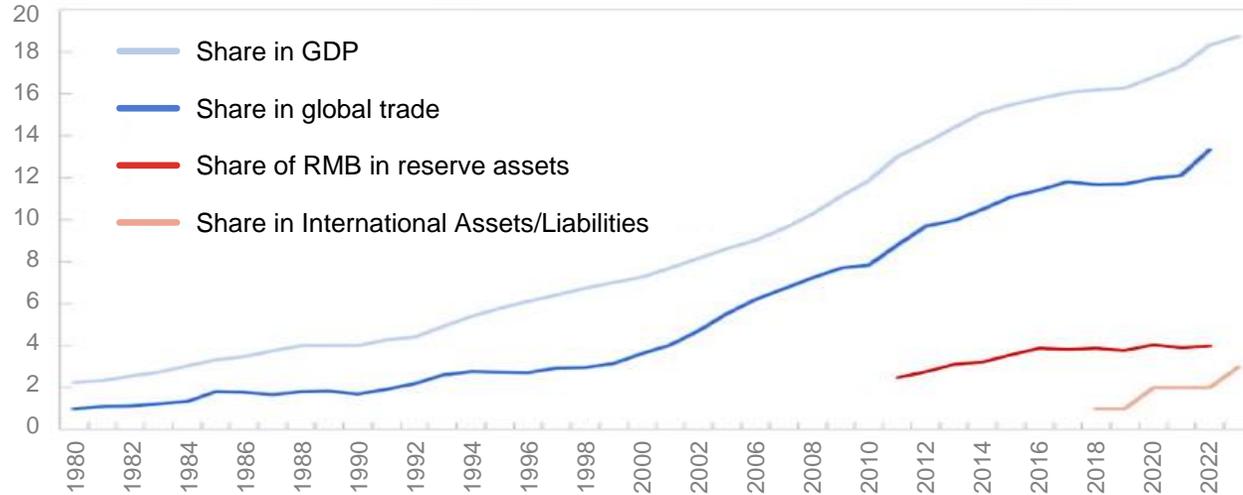
Outline

- 1) RMB internationalisation drive – Bilateral swap lines and Offshore clearing banks
- 2) China-Malaysia bilateral trade and investment flows
- 3) RMB settlement – Benefits, Issues and Impediments



Renminbi internationalisation is already happening, but there remain limitations

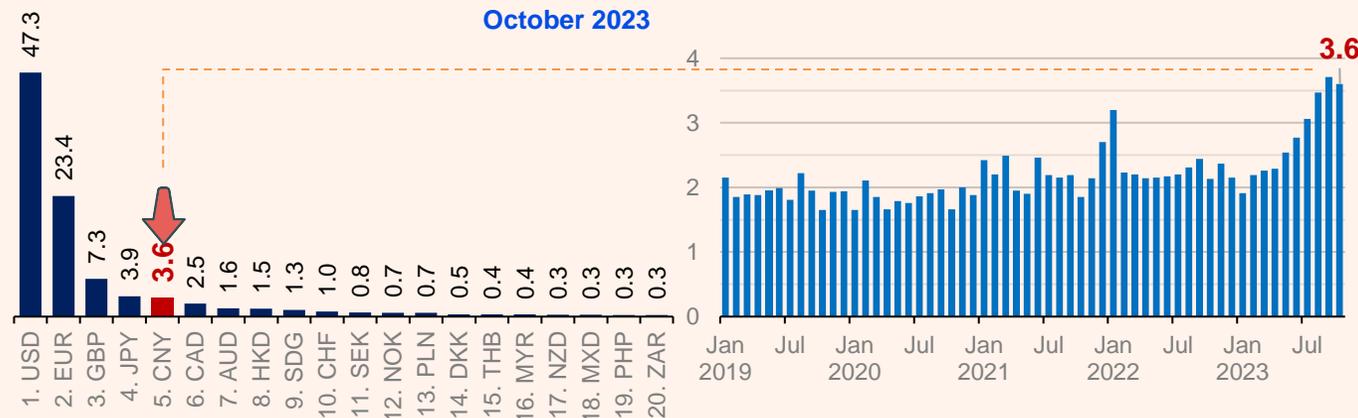
China's economic integration



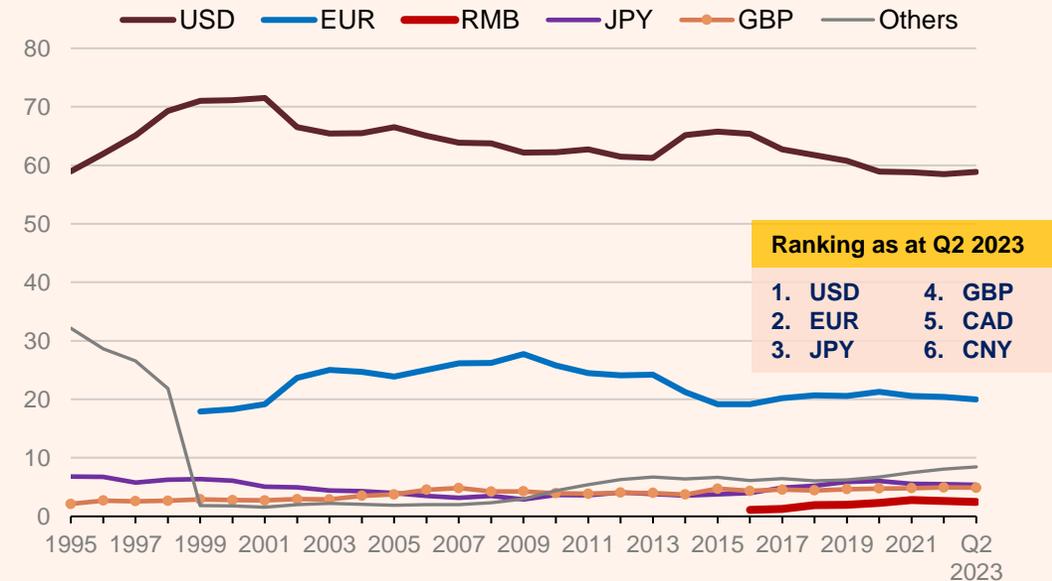
Deep economic integration vs. limited financial integration

- China has deepened its economic integration in terms of trade with the rest of the world (13% of global trade).
- However, China's financial integration is somewhat limited.
 - 4% of the world's external assets and liabilities
 - 3.6% of all global cross-border payments
 - 2.5% of global reserve currencies

China yuan (CNY) / renminbi (RMB)'s share as a global payment currency (%)



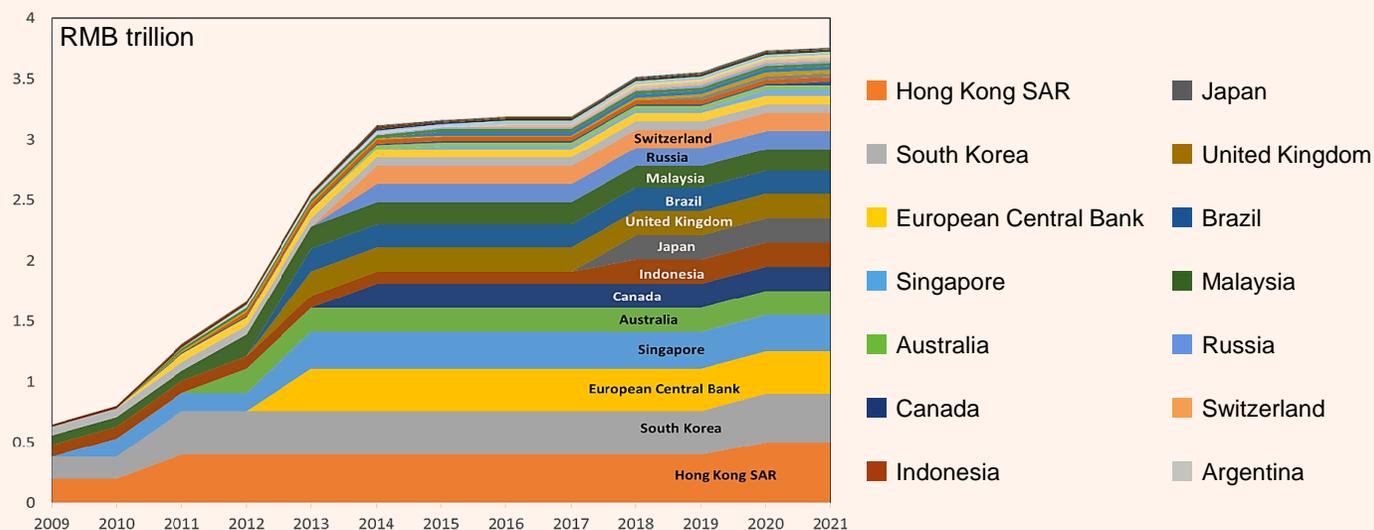
Global currency reserves (% share)



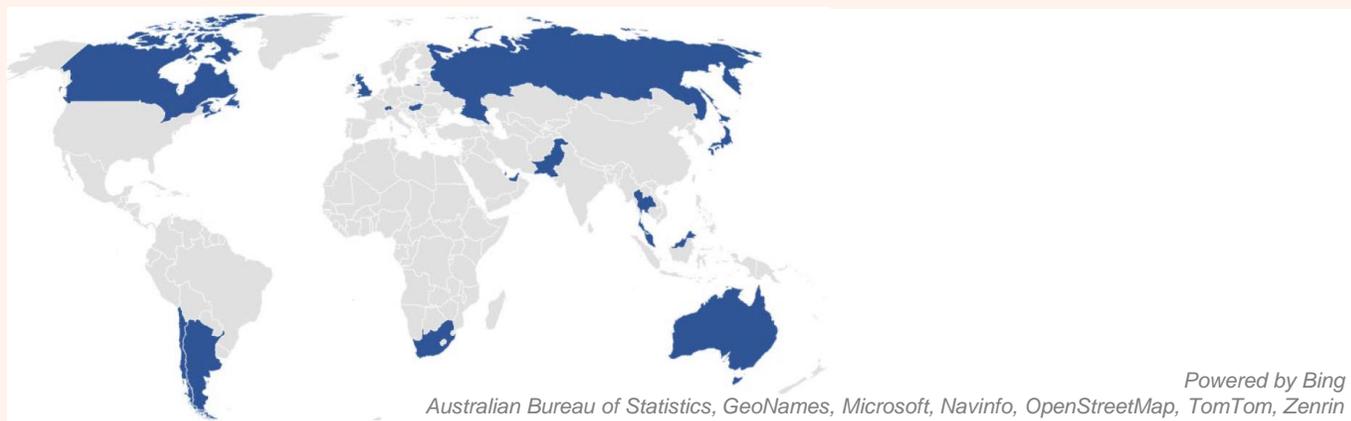
Source: International Monetary Fund (IMF); Swift

Regional policies that facilitate RMB internationalisation

The evolution of PBC swap lines



Geographic distribution of RMB offshore clearing banks



Source: International Monetary Fund (IMF)

PBC = People's Bank of China

Evolution of PBC swap lines

- Bilateral swap lines are PBC's signature policies for promoting RMB internationalisation.
- **As of 2022, there are 38 bilateral swap lines outstanding, amounting to around 4 trillion RMB.**
- The size of the swap lines has been scaled up over time in line with increasing economic ties with China, notably in Hong Kong SAR, Singapore, and South Korea.

Offshore clearing banks

- **As of 2020, there are 27 offshore clearing banks in 25 economies** to facilitate RMB payments, covering the world's major time zones.
- **Cross-Border Interbank Payment System (CIPS)**, China's new cross-border payment mechanism, has the potential to reduce the role of offshore clearing banks in the future. CIPS membership remains limited, with 77 direct participants, and 1,283 indirect participants.
- The **RMB qualified foreign institutional investor (RQFII)** quotas that allow investing offshore RMB in China's onshore bond and equity markets.

Malaysia-China's trade and investment flows

Malaysia's bilateral trade with China

RM billion

■ Exports ■ Imports

Note: Parentheses indicate respective percentage share of total.

* Total Trade.



China is Malaysia's largest trading partner since 2009

- China has been Malaysia's largest trading partner for the 14th consecutive year since 2009. It is also one of the major foreign investors.
 - 16.9% of Malaysia's total trade in Jan-Oct 2023; 13.3% of total exports (ranked 2nd); and 21.3% of total imports (ranked 1st).
 - 4th largest approved foreign investor (3rd largest in the manufacturing sector) in Jan-Jun 2023.
 - 7th largest source of gross FDI inflows in Jan-Jun 2023.

Gross FDI and approved manufacturing investment from China

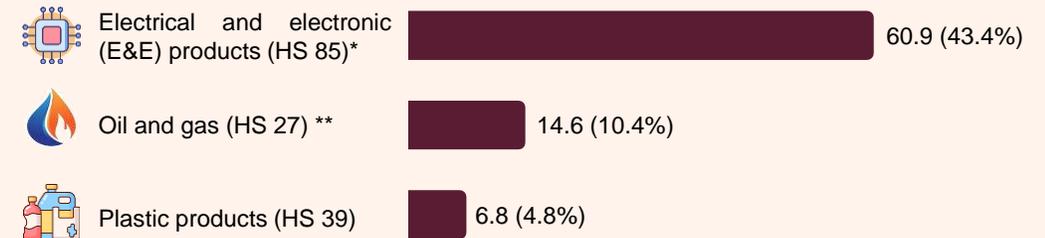
RM billion

■ Gross Foreign Direct Investment (FDI) Inflow ■ Approved Manufacturing Investment



Major export items to China (Jan-Sep 2023)

RM billion (% share of exports to China)



Note: The major export items are based on a 2-digit HS code.

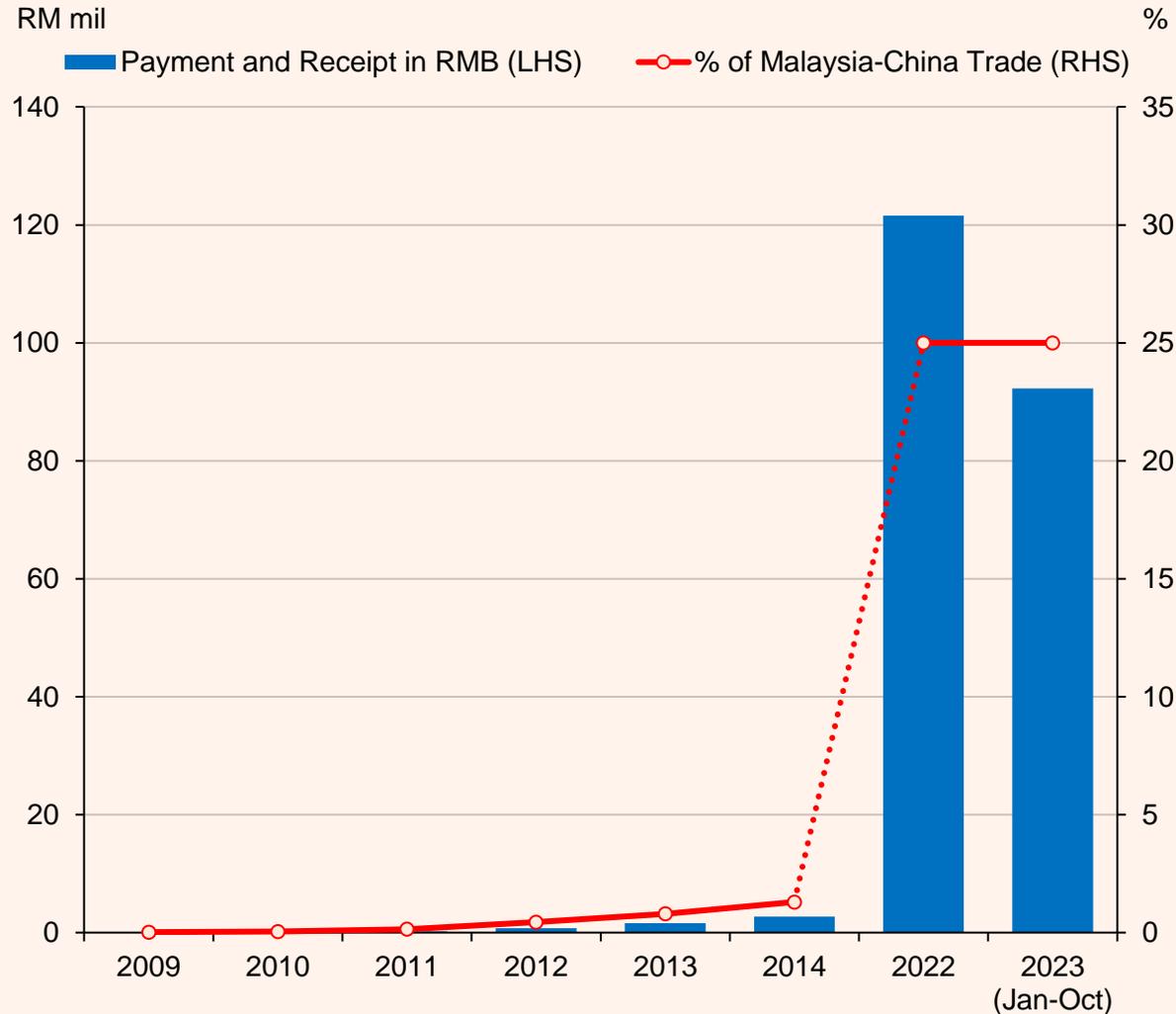
* The export of electronic integrated circuits was the biggest component in this category, with RM44.8 billion and 31.9% of total exports to China.

** The export of petroleum gases and other gaseous hydrocarbons was the biggest component in this category, with RM11.6 billion and 8.3% of total exports to China.

Source: Department of Statistics Malaysia (DOSM); Bank of Negara Malaysia (BNM); Malaysian Investment Development Authority (MIDA)

Increasing bilateral trade settlement in RMB

Malaysia-China's trade settlement in RMB: Getting progressively higher



Source: BNM

BNM's infrastructure to enhance RMB business

- 2009**
 - BNM became the first central bank in ASEAN to establish a renminbi (RMB) swap line with PBC amounting to RMB80 billion. In 2012, the swap size increased to CNY180 billion.
 - BNM became the first Asian central bank to be awarded the Qualified Foreign Institutional Investor (QFII) license and among the first to be granted access to China Interbank Bond Market (CIBM)
- 2010**
 - RMB/MYR was the first emerging market currency to be directly traded in the China Foreign Exchange Trade System (CFETS).
- 2012**
 - MyClear included Renminbi Settlement Service in its Real-time Electronic Transfer of Funds and Settlement System (RENTAS).
 - Bank of China (Malaysia) Berhad appointed as the Onshore Settlement Institution (QSI) for Renminbi in RENTAS.
 - BNM Regional Office in Beijing began its operations.
- 2013**
 - Cross-Border Collateral Arrangement (CBCA) was established with PBC to enable the use of home currency collateral in the form of securities or cash to obtain domestic liquidity from the host country.
 - Renminbi Liquidity Facility (RLF) was introduced to licensed onshore banks.
- 2014**
 - An MOU was signed with PBC on RMB Clearing Bank Arrangement
- 2015**
 - Bank of China (KL) was appointed RMB clearing bank for Malaysia.

Our channel check – Renminbi is not uncommonly used in payment settlement now

Company A



Beverage products

- ✓ Exports to China, payment in RMB
- ✓ Imports from China, payment in the USD (suppliers are mainly foreign-owned enterprises in China) and RMB (suppliers are mainly China locally-owned enterprises)

Comments

- Accept RMB as it can be used for payment of imports from China, which could be more than what received > hassle-free in exchanging more RMB
- The USD is relatively more “advantageous” for hedging exercise and for other imports payment, compared to RMB

Company B



Food products

- ✓ Exports to China via RMB

Comments

- Less transaction (conversion) cost compared to using the USD as a medium of payment, which also favoured by the customers in China

Company C



Wood-based products

- ✓ Imports from China, paying agent in RM while agent to pay the currency according to the supplier's preference

Company D



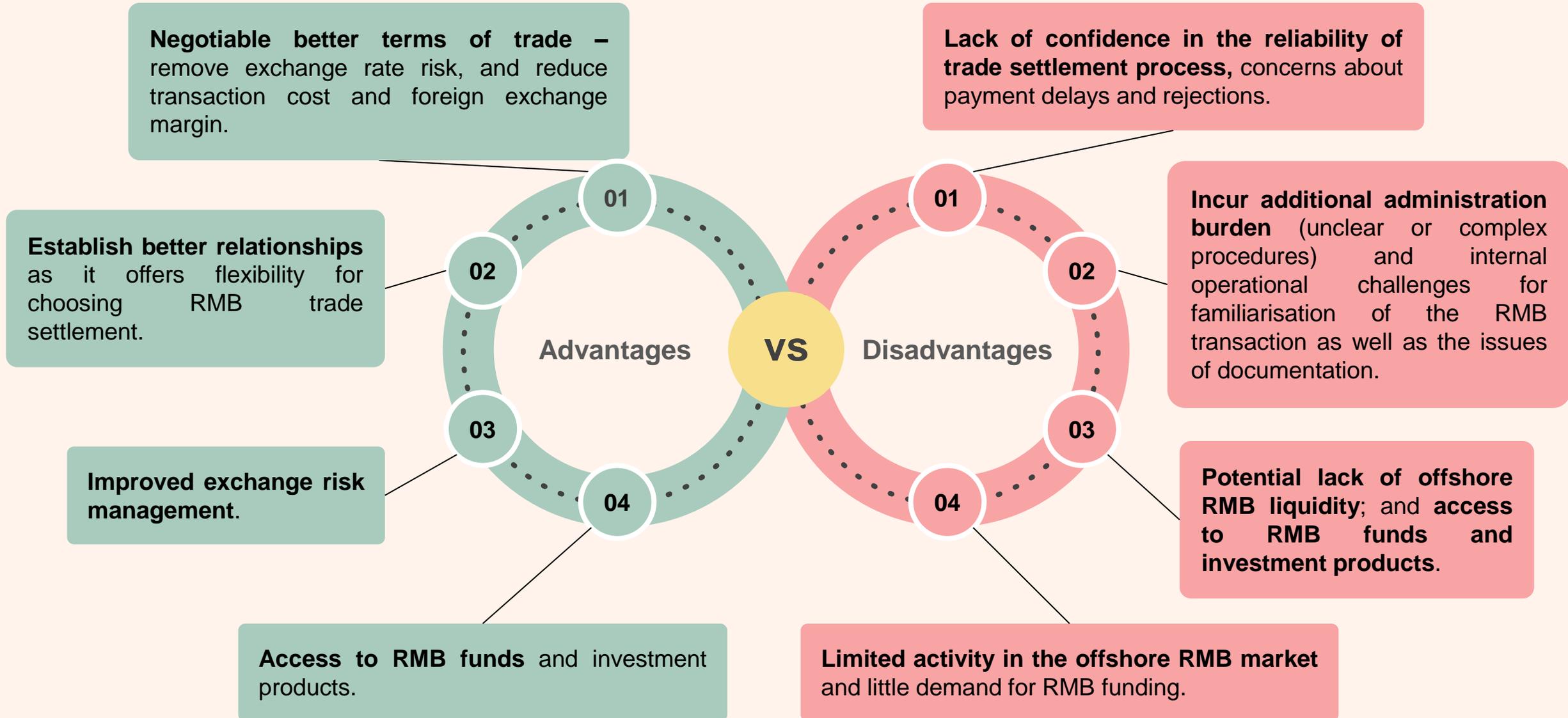
Automobile-related products

- ✓ Imports from China, the quotation in RMB but payment made in RM via local banks

Comments

- It is convenient to make payment via bank but it comes with higher cost of exchange rate conversion

Potential advantages and disadvantages of RMB trade settlement



In summary:

While the RMB's internationalisation journey has had its ups and downs, **the direction is clear – RMB is available both as a choice and an opportunity for the market.**

Malaysia-China's strong trade linkages, geographic distance, social proximity, and more importantly, policy initiatives, including the bilateral swap lines established between the PBoC and BNM, as well as the offshore RMB clearing banks, would expand the RMB settlement.

There is an immense potential to increase the RMB settlement in China-Malaysia bilateral trade and investment backed by **enhanced infrastructure and a cross-border payments platform.**

While BNM continues to support the operationalisation of RMB activities, **Malaysian firms and Chinese counterparties have to develop more appetites for RMB trade settlement, as well as expand demand for offshore RMB products and RMB-denominated funding and investment.**

THANK YOU

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