

RENMINBI INTERNATIONALISATION SURVEY

2016 RESULTS





CHINA'S STAR RISES: GLOBAL ACCEPTANCE OF THE RENMINBI HAS PROPELLED THE CURRENCY TO NEW HEIGHTS

FOREWORD

When HSBC conducted its first Renminbi (RMB) Internationalisation Study in 2012, the prospect of China's renminbi rubbing shoulders with the US dollar or Euro was attainable but we recognised that the path to the currency's maturity was not entirely clear.

Today we see signs that the image has come into focus, thanks to China's remarkable economic reform and RMB internationalisation efforts over the last four years. In that time the RMB has ascended to the world's fifth most widely used payment currency*.

This qualifies that, more than ever, corporates are introducing the RMB into their treasury and integrating it across various business applications each year.

In a survey of 1,600 corporates across 14 countries, we see that companies are finding it easier to utilise RMB to settle cross border trade because the rules and regulations are now far more straightforward than ever before.

This transparency and understanding now enables more firms to use the RMB across import/export, trade financing and liquidity management, amongst other solutions. Additionally, businesses are now experiencing a growing number of appetite to settle in RMB from international counterparties, adding urgency to adoption.

We are now seeing more corporates preparing to capitalise on various opportunities and requests by introducing the RMB to their treasury; such as contracts and partnerships emerging across many sectors, including green financing, construction, technology and transportation, to name a few.

While RMB awareness continues to rise, we have noted that there are still many corporates yet to formulate a strategy to adopt and use the currency in their day to day dealings with the Asian market.

Such corporates may wish to take into consideration the pace of global RMB adoption, which will continue to accelerate. For example, many firms are now working proactively to adopt RMB, in preparation to capture emerging opportunities stemming from China's Belt and Road Initiative.

The ongoing construction of this global network of road and maritime trade routes could present significant growth potential to firms, as it strives to connect trade links between markets in 65 countries spanning Europe, Asia and Africa. This will no doubt facilitate more trade and investment flows with China, much of it in RMB.

The pace of global RMB use is strengthened by the emergence of robust currency infrastructure that helps facilitate the integration of RMB across various business functions. This includes the appointment of more RMB clearing banks around the world, advanced cross border payment systems and new products tailored to meet the needs of companies dealing with China.

Ultimately, the benefits of RMB use have never been clearer. HSBC continues to work with corporates to improve their understanding of how the currency can help them realise new growth in China. This insight can give a firm the preparedness and strategic insight to act upon new opportunities when they arise.

Overall, our 2016 survey conveys a picture of optimism and constructive change. This year sees the International Monetary Fund (IMF) include the RMB in the Special Drawing Right basket; a significant recognition that the currency is reaching new heights of maturity. This decision helps place the RMB alongside the US dollar, Euro and others.

We hope you glean much from this 2016 edition of our RMB Internationalisation Study and that whatever your views on RMB are, you come away with a greater sense of clarity, confidence and foresight into how China's currency is shaping the world's trade and investment landscapes, and how these shifts can help you unlock new growth in years to come.

*Source: SWIFT

A DECADE AGO, THE RMB WAS RARELY USED OUTSIDE CHINA'S BORDERS. TODAY, IT IS SEEN AS ONE OF THE TOP GLOBAL CURRENCIES. INTERNATIONAL ADOPTION IS ACCELERATING AS RMB MAKES SIGNIFICANT STRIDES TOWARDS FULL CONVERTIBILITY.

Since 2012, we have seen year on year increases of companies adopting the currency in a growingly multifaceted way, accompanied by a maturing global infrastructure for RMB use. As more RMB products and services are being created to facilitate cross border flows with China, we are also gaining a greater understanding of the challenges and needs foreign businesses encounter in region.

It is also reassuring to see that more companies than ever before understand the benefits of RMB adoption as well as the new opportunities it presents both in China and across the globe. Corporates are also finding the documentation and laws around the currency easier to understand, contributing to an increase in RMB use to settle cross border trade.

Additionally, this newfound level of understanding has enabled RMB usage trends to stabilise, meaning there is now a clearer consensus on how companies are using the currency to good effect and where there are shortcomings to be addressed.

Not only does this data help give a clearer view on RMB use and opinion around the world, it can help us gain new foresight into where these trends may shift in the future.

As RMB internationalisation continues and China entrenches within the global supply chain, this newfound perspective on the market can help corporates that work with China more confidently switch to RMB and enhance their competitiveness.

To compile the 2016 edition of our RMB survey we commissioned a comprehensive study on RMB use across a global spectrum of companies. A total of 1,600 businesses were polled across 14 markets between May 23 and July 5, 2016, on the basis that they currently conduct business in and with mainland China. In terms of size, the companies all had turnovers ranging from USD3 million to upwards of USD500 million.

The following pages offer insights into how RMB usage is evolving, and will give you a clearer understanding of how companies are using the currency to overcome challenges and secure new growth. It will also focus on the emerging trade and infrastructure opportunities presented by China's Belt and Road Initiative.

HSBC considers RMB to be a growing global currency in all respects; from trade and payments, to investments across various products and channels

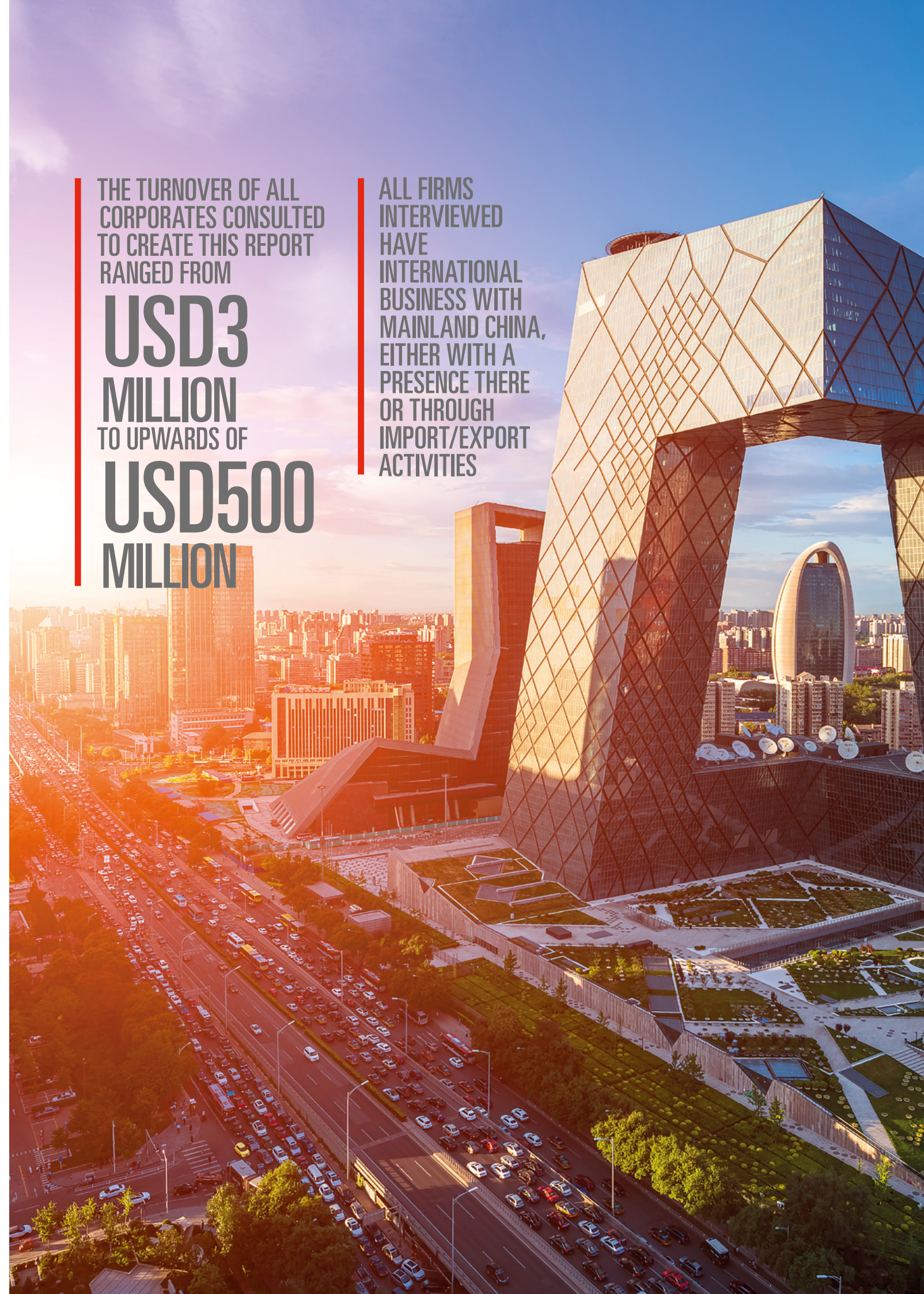
1,600
FIRMS WERE
CONSULTED TO
CREATE THIS REPORT,
ENCOMPASSING
100
IN MIDDLE EAST
AND NORTH
AFRICA (MENA),
300
IN EUROPE,
300
IN NORTH
AMERICA AND
900
IN THE ASIA
PACIFIC REGION

and finally an established reserve currency. Firms now switch to RMB to reduce costs, hedge risks, engage Chinese partners and win new business overseas.

THE TURNOVER OF ALL
CORPORATES CONSULTED
TO CREATE THIS REPORT
RANGED FROM

USD3
MILLION
TO UPWARDS OF
USD500
MILLION

ALL FIRMS
INTERVIEWED
HAVE
INTERNATIONAL
BUSINESS WITH
MAINLAND CHINA,
EITHER WITH A
PRESENCE THERE
OR THROUGH
IMPORT/EXPORT
ACTIVITIES



RISE OF THE REDBACK: WHAT DOES THIS MEAN FOR BUSINESSES

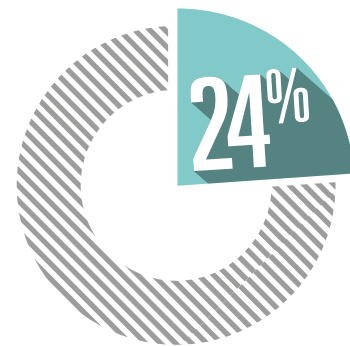
The message is clear: RMB adoption is accelerating with usage rates increasing year on year both within China and around the world. We found that 24% of global companies today use the currency for cross border business, compared to 17% in 2015.

This rise in adoption can be attributed to several factors, a continually evolving RMB infrastructure including the new and improved Cross border Inter-Bank Payment System (CIPS). Businesses also have a better understanding of RMB documentation and rules and trading counterparts are more comfortable using RMB. Banks play an important role in supporting clients in understanding local regulations.

Treasury and cash flow solutions are increasingly supportive of the currency, enabling corporates to integrate RMB into their operation, handle payments and receivables more smoothly and with greater transparency.

We found 35% of firms in the Asia Pacific region are actively using RMB this year for cross border payments, compared to 26% in 2015. Taiwan contributed greatly to this increase with an adoption rate of 65%, up from 38% in 2015, followed by Hong Kong at 48% and mainland China as a whole at 45%.

Equally significant, HSBC is seeing greater diversity in RMB use beyond the Asia Pacific region including Europe and North America. This is partly a result of more RMB clearing banks established by China's central bank, People's Bank of China (PBOC), around the world and more currency swap agreements to facilitate RMB liquidity. With China's increasing transaction flows with the rest of the world,



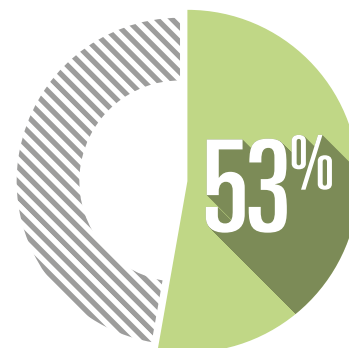
OF GLOBAL BUSINESSES CURRENTLY USE RMB TO SETTLE CROSS BORDER TRADE

global firms find it more logical and convenient to switch to using RMB for cross border business.

As the world's largest trading nation, China's sizable business linkages with the rest of the world is and will continue to underpin the rise of the redback. The Chinese Presidents announcement of the 'Belt and Road' initiative to boost the flow of trade, capital and services between China and the rest of the world will be an important driver for the continued internationalisation of the RMB. Domestically, China's consumer demand and infrastructure development that are bolstered by unprecedented urbanisation rates and the latest Five Year Plan, will see to sustainable growth in it's economy.

This has bearing on how the RMB is expected to be used. Our findings suggest that import and export trading is likely to remain the predominant RMB cross border transaction undertaken by businesses globally, with 80% of corporates expected to use this type of transaction in the near future; although trade financing is set to grow in popularity. The benefits of using RMB to reduce foreign exchange risks and costs, as well as gain more competitive prices, will continue to be an influencing variable.

Overall, RMB adoption is picking up pace not just in Asia Pacific but across other regions, making the RMB a global trade and payments currency. China's continued economic growth and trade drives the currency's wider use, which in turn means that global firms that work with China will need a considered RMB strategy to capitalise on its many benefits. Otherwise they are likely to fall behind their competitors.



OF COMPANIES IN THE GREATER CHINA REGION ACTIVELY USE RMB TODAY

THERE HAS BEEN A
133%
INCREASE OF
CANADIAN
FIRMS USING
RMB BETWEEN
2015-16; THE
HIGHEST OUTSIDE
THE ASIA PACIFIC
REGION

*The margin of error will depend on the size of the sample; for 100 respondents it could be up to 10%, for 50 respondents it could be up to 14% and for 30 respondents it may be up to 18%

OUTLOOK: RMB GROWTH OVER THE NEXT 12 MONTHS

Four in 10 global businesses expect to see an increase in RMB use in 2016*, due to increased awareness around the currency's benefits and a rise in trade opportunities emerging between China and the rest of the world.

This trend is slightly down from 2015's survey, when 56% of global businesses anticipated an increase. This is attributed to several factors over the last 12 months, including concerns of a slowing Chinese economy, sharp losses in China's stock markets and short term currency volatility following the exchange rate reform in August 2015. This has had an impact on global RMB usage though we have since seen signs of a more market-oriented and stable RMB.

Hence, expectations of future RMB use are strong across all regions, more so in countries outside of Asia Pacific where knowledge of RMB use was lower. Our findings show that around 61%* of European firms expect an increase in RMB use to settle cross border business, followed by North America (48%*) and Asia Pacific (39%). This reflects trends around increased RMB awareness which we explained before.

These expectations are underpinned in part by confidence in the ongoing reforms for RMB internationalisation. In particular, China's Free trade Zones (FTZs), such as the earliest established ones in Shanghai, Guangdong, Fujian and Tianjin, have introduced policies to encourage high-end production and services and innovative financial reforms. They have helped boost RMB usage through cross border RMB sweeping, offshore RMB borrowing, cross border centralised cash management solutions – all

of which are designed to ease financial transactions and thus encourage foreign companies to shift more business to China. Seven more FTZs are being established, including inland areas for the first time, creating more hotspots of growth opportunities and RMB use for foreign firms.

We have mentioned drivers of increasing trade flows between China and the rest of the world, aided by sustainable domestic growth but also policies like the Belt and Road Initiative. This aligns with the momentum around the use of RMB as a multifaceted currency. Already an established trade and investment currency, the RMB has recently entered the International Monetary Fund's (IMF) Special Drawing Right basket, cementing its status as an elite reserve currency. This translates into a stronger foundation for easier global RMB use for companies around the world.

Exchange Rate Outlook

As RMB edges closer to full convertibility, businesses – both large and small – are considering how the currency's foreign exchange rate will shift over the next 12 months and beyond. Opinions on this matter vary from market to market, but it is encouraging to see that transparency in this area is improving, which helps corporates understand how RMB is performing on a global scale.

7 in 10 of global businesses believe that the RMB exchange rate volatility will decrease or remain the same. Around 46% of firms in mainland China that expect to do overseas business have expressed that they anticipate RMB volatility to decrease over the year ahead, with 68% agreeing in Taiwan, followed by 61% in Hong Kong.

7 in 10
BUSINESSES BELIEVE
RMB EXCHANGE
RATE VOLATILITY
WILL DECREASE OR
REMAIN THE SAME

56% of companies globally expect RMB volatility to remain static, a sentiment largely reflected in Singapore, Australia and Korea.

The results suggests that countries in greater china region, which undertake more RMB business due to comparatively larger bilateral trade flows, tend to be more optimistic about lower currency volatility than their European and North American counterparts.

Worldwide, firms with sales turnover of USD500 million or more are almost evenly split, with 30% expecting currency volatility to decrease, 36% expecting it to remain static, and 34% anticipating rates will become more volatile. Companies with less turnover lean increasingly towards the view that volatility will remain the same.

We have found that concerns around foreign exchange volatility stem largely from macroeconomic trends, such as downturn felt in several global markets. Reassuringly, the overarching view from corporates within mainland China is increasingly optimistic and the sentiment is that this volatility is expected to lower in future.

By taking a strategic view on how RMB is integrated within treasury, cash flow and working capital functions, a business can work towards mitigating the impact of foreign exchange rate shifts. With new platforms and products being designed to facilitate RMB use, transparency and liberalisation should continue to flourish.

GLOBAL DRIVERS OF RMB USE

As China’s prominence within global markets grows, the application of RMB could shift as more firms use the currency to settle international trade.

For example, we found that globally, 80% of corporates will likely use RMB to facilitate import-export trading in the near future, with the highest interest coming from firms based in the Middle East, Europe and Asia Pacific. Notably these regions are poised for greater connectivity to China as part of its Belt and Road routes.

We are currently seeing RMB being used across an increasingly diverse range of business functions. Our report finds that globally, documentary credit (DC) and trade financing will likely be the currency’s second most popular application, a trend that is most prominent in the Middle East. Meanwhile, in third place, RMB use for liquidity management is expected to be most popular across the Middle East at 25%, followed by Asia Pacific (17%) and Europe (15%).

As mentioned before, exchange rate reform and liberalisation of the RMB has allowed it to evolve beyond its position as a top five payment currency and most widely traded emerging market currency. We have also seen an enlarged pool of offshore RMB liquidity created through growing offshore RMB deposits that facilitate offshore RMB lending, the opening of capital markets to facilitate in and outbound RMB capital flows, issuance of RMB-denominated offshore (or Dim Sum) bonds and diversified RMB investment products and services.

Perceived benefits of RMB use by region

Beyond Asia Pacific markets, the reduction of foreign exchange risks and costs has emerged as the primary driver of RMB usage, followed by the ability to price competitively.

The picture is different for businesses in mainland China, where reserving RMB to capitalise on currency appreciation is the second most popular benefit. This correlates with our findings that corporates across mainland China feel strongly that RMB volatility will subside over the next 12 months and beyond.

Simultaneously, businesses situated within the Pearl River Delta feel strongest that RMB will help them receive requests from trading counterparts, which may bode well for foreign firms seeking a foothold in the region. Outside of the survey results, HSBC has seen various examples of foreign firms pairing with domestic companies to gain a better understanding of the Chinese market and set up or expand local operations.

In the west, North American firms feel the key benefits are reduced foreign exchange rates or risks (55%) followed by cheaper and more competitive prices (50%), which is echoed by Europe with 60% and 48% for both categories. We have seen firms utilising RMB for these very reasons when paying Chinese partners or vendors, and this will remain a benefit moving forward.

Beyond Chinese borders companies in the Middle East appear to buck trends in many aspects of RMB adoption. Across

the region sentiment appears to be more optimistic around usage, particularly where matters of reduced cost, winning new business and competition are concerned. This view could present new opportunities to Chinese firms looking to trade or invest in the region.

- » **85% of firms** with turnover of between USD3 million–USD50 million that expect to use RMB for import/export activities in the next 12 months.
- » **45% of European companies** receiving RMB requests from trading counterparts in 2016.
- » **50% of North American firms** using RMB to get cheaper pricing or offer more competitive pricing.



PERCEIVED CHALLENGES OF RMB USE

While corporates around the world have expressed differing opinions on the perceived benefits of RMB adoption, we are also seeing trends around potential challenges attached to the currency. However, with an increasing number of case studies and data to refer, we continue to gain a clearer understanding of how corporates are overcoming these issues and resolving them to their advantage.

We have seen that firms are finding it easier to integrate RMB into their daily operations, thanks to continually evolving payment and treasury platforms and better access to support on the ground in mainland China. Additionally, the nation’s ongoing economic and financial reforms will support these advancements moving forward.

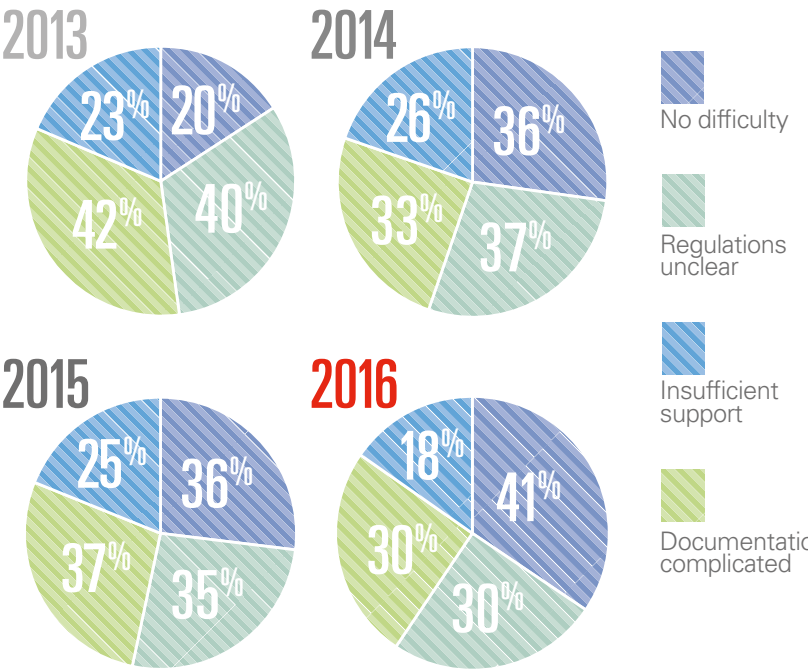
We found that 41% of global RMB users have expressed that they expect to encounter no difficulties using the currency in the next 12 months, compared to just 20% in 2013, reinforcing many trends highlighted in this report that

demonstrate the growing ease and understanding around RMB utilisation in cross border business.

Nevertheless, 30% of global firms feel that regulations around RMB are still unclear and subject to change. This is reflective of wider complaints by foreign companies in mainland China about varying interpretation of regulations from province to province in China. The same companies added that the required documentation around RMB adoption and use is complicated, and this could create barriers to entry for companies that are perhaps unprepared.

In-house research and the support of a banking partner with knowledge of the Chinese market can help businesses articulate the benefits of RMB adoption, interpret regulations to facilitate RMB use and overcome the challenges it may present. As a leading international bank for RMB business with strong local expertise through our extensive network in China, HSBC has done exactly that for our clients.

DIFFICULTIES IN DOING CROSS-BORDER BUSINESS IN RMB



WHY NON-RMB USERS HAVE REFRAINED

We also polled firms that have refrained from introducing RMB into their treasury operations, in an attempt to understand where their reluctance lies. Our findings show that 63% of corporates simply do not perceive a clear benefit of using the currency, or have not fully considered the implications yet. This could be in part due to wider concerns around China's economy or short-term volatility of the RMB, which is why it is important to understand specific benefits to a business, from hedging to risk and liquidity management.

This correlates with the view of 20% of non-RMB users, who felt that they had not yet found the right banking partner to guide them through the benefits and procedures of switching to RMB. This suggests that a lack of knowledge is perhaps creating hesitation, particularly in the Middle East, where this sentiment is strongest.

Despite this reluctance, we see that global and Chinese businesses continue to gravitate towards RMB usage year on year. This trend should continue as China takes steps to lower the barriers to RMB usage and bring the currency towards full convertibility.

Our findings show that in 2013, 40% of firms using RMB felt that the currency's regulations were unclear, compared to just 30% in 2016, and while 42% were confused by documentation in 2013, just 30% share that view today. This sentiment underlines the growing understanding of RMB benefits and ease of use around the world.

It is clear that while corporates are aware of growth opportunities within China, many are simply confused or unsure of the rules and laws surrounding RMB use. Working with a partner that has a clear understanding of the Chinese market can help businesses navigate these issues with confidence.



20% OF CORPORATES YET TO ADOPT RMB SAY THEY HAVE NOT YET FOUND THE RIGHT BANKING PARTNER TO GUIDE THEM

BELT AND ROAD: HOW CHINA IS DRIVING TRADE AND INVESTMENT FLOWS ACROSS THE GLOBE

Two in five (41%) global businesses are aware of China's Belt and Road Initiative (BRI) to some degree, but only 7% of corporates feel informed enough to develop a strategy to capitalise on the opportunities it presents.

HSBC feels there is a genuine opportunity for foreign firms to partner with Chinese corporates on the development of BRI infrastructure. While the initiative is still unfolding, both Chinese and foreign firms have begun to establish contracts and execute projects across sectors like transportation in rail and port logistics, energy and resource development.

It is also worth noting that the ongoing urbanisation in countries along BRI routes has given rise to development needs for new 'smart cities,' which will require new technologies, sustainability planning and green financing.

The cost of financing the BRI is immense. China initiated the creation of the Asian Infrastructure Investment Bank (AIIB), founded by 57 countries, with committed capital of USD100 billion. Additionally, a Silk Road Fund was set up in China to fund Chinese companies involved in projects along BRI.

The ripple effect of opportunities from Belt and Road infrastructure projects are multi-fold. In the wake of large-sized commitments are opportunities in sub-contracting and supply chain services in local projects, acquisitions of machinery and technology, services and more. Chinese companies are able to gain a viable foothold in the local markets while local players are able to capture upscale opportunities.

Collectively, the impact of more and improved land and maritime routes will translate into large trade corridor and regional flows.

Overall, our findings show that 58% of Asia Pacific corporates are aware of BRI, followed by 50% in the Middle East region, and 22% in Europe. However over half of the initiative (53%) do not have full sight of the opportunities it could bring their business.

This suggests that clients need further insights into BRI expansion and the potential benefits, which correlates with our findings that 63% of global firms admit to requiring banking support and information. A further 62% stressed they would like to receive online resources to keep them up to date on new BRI developments.

Belt and Road awareness is undoubtedly high within China, suggesting that a majority of domestic firms are receptive to utilising this growing infrastructure to facilitate the movement of trade, secure new contracts and connect with global markets.

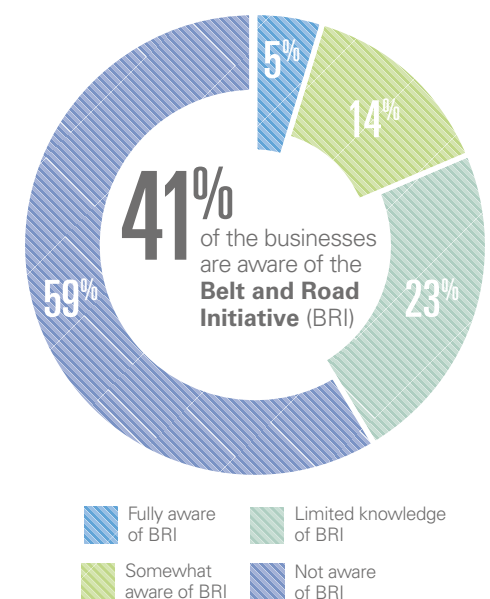
Corporates with an interest in China should now be considering how BRI infrastructure development and RMB adoption can, together, help them nurture new growth within this increasingly outward-facing market. Forming a strategic approach and securing the assistance of a banking partner early can ensure firms are poised to act when opportunities arise.

Belt and Road explained:

- » The Belt and Road Initiative (BRI) is an ambitious and multifaceted strategy first

announced by Chinese President Xi Jinping in 2013.

- » Through improved land and maritime routes, BRI aims to boost the flow of trade, capital and services between China and the rest of the world, connecting over 65 countries across Asia, Middle East, Africa and Europe.
- » The vision is to create the infrastructure network, financial and policy conditions that will facilitate regional trade and investment cooperation.
- » The financial needs for BRI infrastructure projects are immense. In Asia alone, the Asian Development Bank (ADB) estimated that up to 2020, infrastructure needs would cost USD800 billion a year.
- » It is all part of China's plans to encourage its businesses to venture beyond its borders. Sectors such as transportation and logistics, construction and energy are most likely to benefit from Belt and Road.
- » Global financial centres along the Belt and Road, such as Hong Kong and London, will have critical roles to play when it comes to capital raising and investment activities.



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Thank you for reading the report. HSBC would be more than happy to help if you have any questions at all on RMB or simply need more information on China or Belt and Road opportunities.

About the RMB Internationalisation survey

HSBC commissioned Nielsen to conduct a market survey of a total 1,600 international companies that currently do business with Mainland China or are a business in Mainland China that imports/exports outside of the region. The survey was in field between 23 May and 5 July 2016 and was undertaken to understand clients' attitudes towards using RMB, reasons of using or not using and don't use RMB for trade and investment activities, as well as other insights they can offer about the RMB. The research surveyed international businesses in Australia (n=100), China (n=200), Germany (n=100), Hong Kong (n=200), Singapore (n=100), the UK (n=100), the USA (n=100), Canada (n=100), Taiwan (n=100), France (n=100), the UAE (n=100), Malaysia (n=100), Korea (n=100) and Mexico (n=100). Of the companies surveyed, approximately 50% had an annual sales turnover between of USD3 million – 50 million, 21% had a turnover of USD50 million – 150 million, 20% had a turnover of USD150 million – 500 million and 9% had an annual sales turnover above USD500 million. N=100 (statistical standard error +/- 9.8%), N=50 (statistical standard error +/- 13.86%), N=30 (statistical standard error +/- 17.98%). (Copyright © 2016, The Nielsen Company)

About the HSBC Group

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 4,400 offices in 71 countries and territories in Asia, Europe, North and Latin America, and the Middle East and North Africa. With assets of USD2,608 billion as at 30 June 2016, HSBC is one of the world's largest banking and financial services organisations.

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