

Canadian Renminbi Trading Hub Among Latest Moves to Boost Access to China

Date: April 29, 2015

Original Newsletter(s) this article was published in: International Business Bulletin: April 2015

This articles was originally published by The Law Times on April 27, 2015.

The Bank of Montreal completed the first-ever renminbi trade in North America in the new yuan clearing house last month in Toronto. The Canadian clearing house now allows the direct conversion of Canadian dollars into renminbi without having to first convert into U.S. dollars.

The trading hub officially opened contemporaneously with the publication of a survey by HSBC showing that Canadian companies are the second least likely to use the renminbi for their trade settlements with mainland China. Only three per cent of Canadian business have concluded renminbi-denominated trades compared with a rate of 17 per cent globally and 10 per cent in the United States. Countries in Asia continue to drive much of the usage of renminbi even though it's now one of the world's five most-used currencies.

The opening of the renminbi trading hub in Toronto is another step towards greater access by Canadian companies to the Chinese market. Alongside the new 10-year visa officially announced earlier this year, the signing of the Canada and China Foreign Investment Promotion and Protection Agreement last year, and the ongoing negotiations for the Trans-Pacific Partnership agreement with neighbouring countries, the opening of the trading hub illustrates the Canadian government's focus on promoting trade with the world's second-largest economy and East Asia generally by facilitating the movement of funds, people, and goods.

The benefits of the renminbi trading hub to Canadian businesses include:

1. Price discounts from Chinese partners for transactions settled in Chinese currency: Another HSBC study found that 55 per cent of Chinese businesses said they would offer discounts of up to five per cent to foreign partners transacting in renminbi, making Canadian exports more competitive on the Chinese market.

2. Reduced foreign exchange risk: Companies can now settle transactions in renminbi without having to convert to U.S. currency first, thus reducing for exchange risk linked to fluctuations in the U.S. dollar.
3. Increase in Chinese exports to Canada: Chinese products will benefit from reduced foreign exchange conversion fees and become more attractive to Canadian importers and consumers. The savings for Canadian companies importing goods from China are estimated at \$6.2 billion over the next decade.
4. Increase in Canadian exports to China: The Canadian Chamber of Commerce estimates exports will grow by \$32 billion within the next 10 years as a result of renminbi-denominated trades.
5. Opportunities for the financial industry in Canada: As the only trading hub in the Americas for now, the Canadian financial industry can benefit from first mover-advantage to target clients who want to effect trades in renminbi.

The advantage of the Canadian yuan trading hub will only last a few years as China continues to liberalize its financial system and allows more domestic business to access foreign currencies. Canadian businesses should use this new advantage to continue building links with Chinese partners to fully utilize their first-mover advantage of settling transactions in renminbi.

All told, the past year has seen significant beneficial policies implemented to facilitate access to the Chinese market by Canadian businesses. Canadian businesses should use these new tools to their advantage to grow their presence in the Chinese market and gain a foothold in this growing economy.