

# CHINA.ACTION.MONEY.

## Financial Innovations in China



PACIFIC TYCOON

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The Chinese economy is continuing to thrive, driven by the sheer scale of the country's trading prowess and in particular its exports of goods globally. One result of this economic development is that the country's financial markets are maturing and attracting investment from around the world. These advances are providing the finance required to fund the growth of Chinese companies and are helping the currency of China, the Renminbi, become a key global exchange.

The Renminbi bond, launched by the UK government, and the opening of the Shanghai-Hong Kong Stock Connect are two particular innovations that are helping the Chinese financial markets to globalise. In the long term, these developments will ensure China's continued growth and its position at the heart of the world economy.

### UK Renminbi bond

In October 2014, Britain became the first Western economy to issue a bond in China's currency. Raising £600 million, or Rmb6 billion, the government's sovereign Renminbi bond issue was deemed "a great success" and one that will "deliver value for money to taxpayers" by the Chancellor of the Exchequer, George Osborne.

Of those who purchased debt from the UK government, more than half came from Asia, with a further third from Europe, the Middle East and Africa and the remainder from the Americas. Whilst being the first Western government to issue a bond denoted in the currency of China, other economies have already started accumulating large Renminbi reserves. Australia has announced its intention of holding 5% of reserves in Chinese bonds while Nigeria's central bank keeps at least 10% of all its foreign exchange holdings in Renminbi. Furthermore, Russia and China have agreed a currency swap facility that will bypass the Dollar and instead directly exchange the Russian Rouble and Chinese Renminbi.

The use of the Renminbi in a Western government bond and its increasing popularity as a reserve currency highlights the challenge presented by the Chinese currency to the dominance of the US dollar. As the second largest economy in the world, China is growing at a faster rate than the US and has recently overtaken the USA when GDP figures are adjusted for purchasing power parity. The growing internationalisation of the Renminbi will support this growth and expand the influence of the Dragon Economy around the world.

### Shanghai-Hong Kong Stock Connect opens Dragon Economy to Investment

In the middle of November 2014, the Shanghai-Hong Kong Stock Connect will allow investors from around the world to purchase shares in Chinese firms for the first time. The impact

of this agreement between the two stock markets could be vast with global investors having access to Chinese stocks through Hong Kong, potentially resulting in \$3.8 billion (£2.3 billion) worth of trades a day.

The Chinese stock market is currently worth \$4.2 trillion, and the agreement was declared a "game changer" by an equity trader at Goldman Sachs Group Inc. It is believed that the combined stock market will be the second largest in the world with a market capitalization of over \$6 trillion.

The impacts of this agreement will be far-reaching, benefitting the entire Chinese economy. Chinese firms will gain access to finance from abroad, as well as achieve greater global exposure. The money flowing into the Chinese economy will facilitate the expanded operations and investment into state-of-the-art infrastructure. Such benefits will allow the nation's firms to develop competitive advantages and grow on a global scale. This expansion will increase the global presence of these firms and increase their sales around the world. The result of which will be greater exports and a boost to the transportation industry.

Hong Kong is already at the heart of China's trade empire and its global influence will only increase as a result of the launch of the Shanghai-Hong Kong Stock Connect. Hong Kong will ultimately solidify its position as a conduit for global investment into and out of China.

The mutual market access will provide further support to the internationalisation of the Renminbi and thus increase China's influence and soft power around the world. In the future if, as expected, other Chinese investment opportunities are opened up to the global market, this will support the continued rise of the Chinese economy.

### Financial Innovations and the Rise of the Dragon Economy

As the Chinese economy grows and becomes a key player in the global arena, its currency and the investment opportunities it presents are becoming more appealing around the world. The Renminbi is fast challenging the US Dollar as a global reserve currency, whilst international investment into Chinese firms is set to boom. These financial innovations will ultimately open up the Chinese economy, and fuel significant economic growth.

The long term impact of these developments will be crucial for supporting the rise of the Dragon Economy. China's global influence and soft power is set to grow on the back of these changes which will drive the country's impressive economic growth. With money and investment flowing into the country, a greater number of exports will flow out, driven by more competitive companies. This will not only benefit the container and global trading industry but ensure a balanced and competitive China for the future.

Pacific Tycoon's head office is based in Hong Kong, at the heart of the booming East Asian economy. Benefiting from our proximity to the industrial and business-led projects transforming China, we endeavour to monitor and understand each one closely. For further details on the trillion dollar projects shown on this map, visit our website: [www.pacifictycoon.com](http://www.pacifictycoon.com)



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