

China writing new interbank rules

Associations help finance Belt and Road projects and promote renminbi

by Herbert Poenisch in Beijing

Thu 13 Jun 2019

Chinese banks have struggled in the international arena. They are the biggest in the world, but must abide by rules written over the past few decades by western banks.

This applies to interbank trading. This is either bilateral, by opening correspondent accounts, or multilateral on the global interbank market, where large positions in domestic or foreign currencies are traded and settled, based mainly on trust.

The biggest Chinese banks have operated correspondent accounts for many years and are trusted partners in the global interbank market. However, they have felt uneasy not setting the rules of the game. Consequently, they have established joint interbank associations around the world.

The first connected Brazil, Russia, India and China, followed by the Shanghai Co-operation Organisation. China later formed an interbank association with the Association of Southeast Asian Nations, as well as the China-Central and Eastern Europe interbank association, China-Arab countries interbank association and China-Africa interbank association.

These all follow the same model. A major Chinese commercial bank and the China Development Bank partners with major banks from a designated region. The Brics interbank mechanism comprises the China Development Bank, Brazilian Development Bank, Russia's Vnesheconombank, the Export-Import Bank of India and Development Bank of Southern Africa.

The purpose of these associations is to 'encourage financial institutions, on a voluntary basis, to continue to strengthen existing co-operation on investment and financing, introduce innovations in the mode of investment and financing to the demands of the market, create new financing instruments, strengthen the dialogue between banks and enterprises and explore co-operation on renminbi financing and green financial bonds.'

The Brics association led to agreements on currency exchange and the acceptance of letters of credit. The Shanghai Co-operation Organisation interbank association, under the leadership of the China Development Bank, aims to finance major infrastructure projects and trade, as well as support international settlements, correspondent banking relations and trust services. The China-Asean interbank association, also presided over by the China Development Bank, supplies 'financing support for infrastructure interconnections, and to provide project contractors with comprehensive financial services to support these projects.' The China-CEEC association met in April 2019 to strengthen co-operation among financial regulatory authorities, diversify the currencies used, and promote the renminbi.

The purpose of China's regional interbank associations is to finance Belt and Road projects and involve regional commercial banks in their financing. The associations work to ensure that regulation of all participating banks conforms to certain standards. Further aims include creating new financing instruments and settling transactions in regional currencies. These associations are an attempt to replace the existing interbank system with Chinese-dominated financing and settlement systems, with the aim of strengthening partnership connectivity.

Given the global financial architecture in place already, it would appear China is attempting to create its own structure for banks in its orbit.

Herbert Poenisch is a Member of the International Committee of the International Monetary Institute at Renmin University of China, and former Senior Economist at the Bank for International Settlements.