

Luxembourg Vies to Be A Yuan Hub

BY MARGOT PATRICK

In tiny Luxembourg, ancient castles and churches stand in the view of glistening tower blocks, the modern cathedrals of a financial sector that has benefited from the Grand Duchy's proximity to some of Europe's largest economies.

Now, the small nation of half a million people is seeking to be at the heart of a new trend in global finance: the rising use of China's currency outside its home market.

As of the first quarter, around 18% of China's \$4 trillion in annual foreign trade was conducted in the currency, known as the yuan or renminbi, according to **HSBC Holdings PLC**, which expects that figure to rise to one-third by next year. With billions of euros in transaction and servicing fees up for grabs, the race is on to become the world's pre-eminent hub for offshore yuan trading.

"The internationalization of the renminbi is one of the major events, if not the major event, since the creation of the euro in terms of monetary events. It's potentially huge, so we want to be positioned for that market," Luxembourg Finance Minister Pierre Gramegna said in an interview.

Like their rivals from London, Paris, Frankfurt and other financial centers, Luxembourg fund managers, regulators and politicians have made major overtures to attract China's financial clout to the country. Even Crown Prince Guillaume, the 32-year-old heir to the Grand Duchy, has joined in, accompanying a December delegation to China.

Officials at the Luxembourg Stock Exchange keep enamel pins pairing the Luxembourg and Chinese flags to wear at events celebrating yuan-denominated bond listings, which hit 30.6 billion yuan in volume when **Bank of China Ltd.** raised 1.5 billion yuan in May. At the Association of the Luxembourg Fund Industry, information packs and wall posters have been translated into Mandarin. Local legal and accounting firms and even the financial regulator, the CSSF, say they are hiring Chinese speakers.

Their efforts are paying off. On one trade mission to China this month, for instance, a delegation from Luxembourg presented its hosts with commemorative stainless-steel €5 coins bearing the image of a blast furnace similar to one installed in Wuhan by a Luxembourgier a century ago. At the end of the meetings, China signed a clutch

of agreements that should lead to the establishment in Luxembourg of a yuan clearing bank and bring more China-related funds, bonds and stocks to the country.

Meanwhile, three of China's six biggest banks have set up European headquarters in the area locals call Luxembourg city's "mini Wall Street," and two more announced plans in the past few weeks.

At **China Construction Bank Corp.**, which got its Luxembourg banking license last year, European chief Suosheng Li can look out from the bank's glass-and-steel headquarters building onto the three round towers of Fort Thungen, an 18th century citadel that is one of the city's main landmarks. CCB's nine-story office block is mostly empty right now, but the bank aims to fill it with staff who will help bring Chinese companies to Europe and serve China-focused European customers, Mr. Li said.

"We start with what we are familiar with, corporate banking, and then gradually we will expand into different areas, like private banking and asset management and other retail-banking areas," Mr. Li said.

Luxembourg will have to compete with much larger financial centers to tap into the potential of China's currency. U.K. Chancellor George Osborne hosted the first U.K.-China financial forum in London in June, eliciting agreements with Chinese Premier Li Keqiang to start direct trading between the British and Chinese currencies and licenses for British fund managers to invest directly in China's markets.

German Chancellor Angela Merkel on a visit to China this month won a quota for German investors to enter its stock and bond markets, alongside several industrial trade deals. Paris is also getting a yuan clearing bank on top of existing investor quotas, and Switzerland signed a swap line with the Chinese central bank this month as a first step toward hooking up the two countries' financial sectors.

"China is of growing importance, its currency is of growing importance, and London needs to be part of it," said Mark Boleat, policy chairman at City of London Corp., the body leading the U.K.'s push and advising the Treasury. He said Chinese banks are also likely to expand in the U.K., even if it isn't their official European headquarters.

Luxembourg's pitch promises minimal red tape and a business-friendly government, in a country where the financial services industry is the biggest contributor to gross domestic product—at 25% last year. Officials say it can take less than six months to get a banking license—half the amount of time it takes in the UK.—and incoming executives don't have to go through grilling interviews or take exams that are required in some countries. For instance, when China Construction Bank set up in Luxembourg last year, Chairman Wang Hongzhang said it had been the fastest process of any of the bank's overseas operations, accomplished at "Luxembourg speed."

CCB's executives say further Chinese investment in the small country is sure to follow.

The Grand Duchy's economy may be relatively small compared with neighboring France and Germany, but it is no slouch when it comes to financial services. Efficient tax structures and a deep pool of finance professionals have attracted €2.82 trillion in fund assets from all over the world since the industry took off in Luxembourg in the 1980s, the highest level outside the U.S., according to Mark Saluzzi, chairman of the Association of the Luxembourg Fund Industry. As China moves to fully internationalize its currency, Luxembourg wants to become an overseas center for Chinese savings and investments.

"We know that we will have to travel many more times to China to show them what we can offer," said Mr. Saluzzi. "But we will get our foot in the Chinese market."