



# China: the Evolving Landscape in Banking



## Last year

- The economy will remain strong but the government is now willing to accept slightly slower growth in order to achieve a more balanced economy.
- The bilateral trade surplus with the United States is set to grow further.
- Gradual reform & gradual appreciation of the renminbi in 2006....but with much more to come.
- Financial market liberalization will proceed very slowly, though China will adhere to its WTO commitments regarding the role of foreign banks.



### Guangdong reports 25% surge in foreign trade in first three quarters

GOV.cn Friday, October 27, 2006

The booming [Guangdong](#) Province in south China reported foreign trade totaling 375.92 billion U.S. dollars in the first nine months of this year.

It represented 25 percent rise from the same period of last year, according to the Web site of China [Ministry of Commerce](#).

The province contributed to 29.5 percent of China's foreign trade which totaled 1,272.6 billion U.S. dollars between January and September. It retained the top place in foreign trade nationwide, followed by [Jiangsu](#) Province and [Shanghai](#) Municipality.

Its imports were up 20.2 percent to reach 162.63 billion U.S. dollars, while the exports rose 28.8 percent to 213.29 billion U.S. dollars.

Its import and export in September alone reached 50.92 billion U.S. dollars, which renewed its monthly record.

Guangdong's major trading partners included [Hong Kong](#), the United States, the European Union, Japan and the Association of Southeast Asian Nations.

Editor: Ling Zhu

Source: Xinhua

## Trade Trends

**638 listed companies report profit growth of 23.6% in first three quarters**

**GOV.cn** Friday, October 27, 2006

**The 638 mainland-listed companies who have released their quarterly reports for the third quarter reported total net profit of 45 billion yuan (5.6 billion U.S. dollars) in the first nine months, up 23.6 percent on the same period of last year.**

**Of them, 391 reported an increase in net profits.**

**Some 172 companies saw their profits rise by over 50 percent and 110 companies' profits rocketed by over 100 percent year on year.**

**The three most profitable companies were Nanning Sugar Manufacturing Co, Ltd., Xianyang Pianzhuan Co. Ltd., Huludao Zinc Industry Co. Ltd., who registered year-on-year profit growth of 142.2 times, 77.2 times and 51.4 times respectively.**

**Industries such as non-ferrous metals, mechanical equipment, medicine and real estate saw the best profits.**

**Many companies are upbeat about their yearly results.....**

**Editor: Ling Zhu**

**Source: Xinhua**

# Trade Trends

**Today Updates - Microsoft Internet Explorer**

Address: <http://english.mofcom.gov.cn/column/todayupdates1.shtml?cid=20070320>

**Ministry of Commerce of the People's Republic of China**  
**中华人民共和国商务部**

Tue.20/3/2007    Sitemap    Statement    Mission    Chinese Version

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- [Counselor's Report] Huachen plans growth models (2007/03/20 21:54)
- [Counselor's Report] Expo brings new opportunity for industry to grow (2007/03/20 21:53)
- [Counselor's Report] Fedex to launch express delivery service in China (2007/03/20 21:53)
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- [Counselor's Report] Profits of building materials industry to keep rising in 2007 (2007/03/20 21:40)

Taskbar: Start, Internet, 3:10 PM, Today ...

## ***So what financial market liberalization has occurred?***

**“The Chinese authorities are committed to financial sector liberalization – but according to their timetable.”**

- **Payments systems in China**
- **The RMB / FX controls – “The exchange rate will become ‘more flexible’ over time, leading to a distinct appreciation – but this is more on a five than a one-year timetable.”**
- **Import / Export process**



## *Background*

- **Company Structure**
- **Accounts**
- **Regulatory Challenges**
- **Liquidity**
- **De-regulation Updates**



## Company Structure – Recent Developments

- **Holding Company** - With holding company regulation in place in 1995, foreign investors can establish a holding company in the form of limited liability company (either a WOFE or EJV). It allows a foreign investor to centralize certain operations for its China investments.
  - **Regional Headquarters (Shanghai only)** – From 2003, a MNC with a holding company of \$100MM registered capital could be designated as a RHQ. Regional Headquarter status allows for an expanded business scope including establishment of trading or finance companies..
  - **Finance Company** - To provide financial services to and on behalf of its related entities including banking and settlement services, loans/deposits for these entities, inter-bank funding and – subject to CBRC approval – bond/debt issuance and supply chain finance.
  - **Trading Company** - Since Dec 2004, foreign companies have been allowed to set up wholly owned trading companies.
- .... choosing the right company structure matters for tax, cash management, group financing and exit options*

# Accounts

## RMB Accounts

- **Basic account**: only one basic account can be opened for each company. Used for cash withdrawals and salary payments.
- **Regular account**: for domestic collections and payments other than cash withdrawals and salary payments.

## RMB Deposit Interest Rates

<u>Deposit Tenor</u>	<u>Deposit Rates</u>
Current account	0.72 %p.a.
3 months	1.71 %p.a.
6 months	2.07 %p.a.
1 year	2.25 %p.a.
2 years	2.70 %p.a.
3 years	3.24 %p.a.
5 years	3.60 %p.a.



## Foreign Currency Accounts

- Capital account: for capital injections.
- Loan account: for foreign currency inter-company and bank loans.
- Current or Settlement Account: for export proceeds/foreign currency revenues.
- Supporting documents required for FCY disbursement:
  1. Trade Transactions: Invoices, Bills of Lading, Agreements, Customs Declaration Forms.
  2. Non-trade Transactions: Invoices/Agreements, Tax Certificates (Tax Bureau Approval), MOFTEC registration (if necessary)
- Funds from different types of accounts cannot be co-mingled.
- All Foreign Currency account openings are subject to SAFE approval except for FCY domestic loan accounts.

## **Regulatory Challenges**

### **Limitations / Restrictions**

- **Repatriation of cash: strict FX controls by SAFE**
- **No RMB for off-shore companies**
- **FCY payments between on-shore companies with exception to some industries**
- **Limited onshore hedging instruments**
- **Limited investment alternatives**
- **Regulated interest rates set by PBOC**

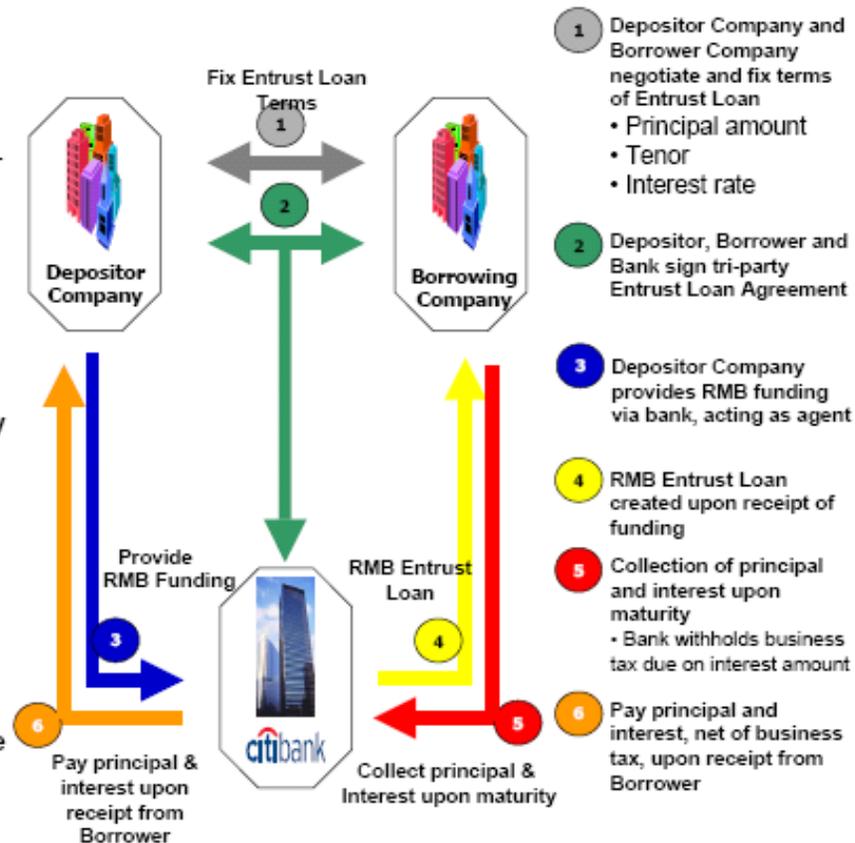
### **However,**

- **Overdrafts recently allowed.**
- **Excess FCY must be converted to RMB within 90 days**
- **Sharing of inter-company funds allowed (under entrust loan)**

# Liquidity Management – Entrust Loan

- **Single Entrust Loan**

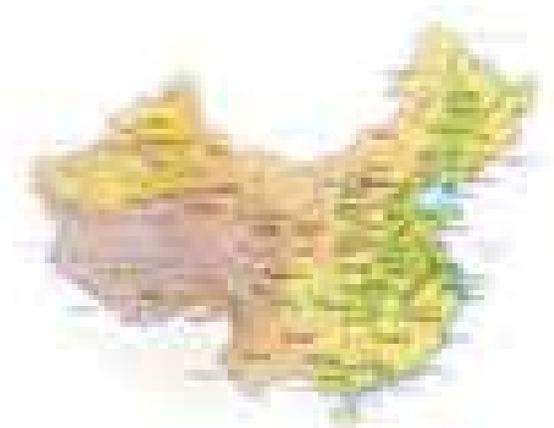
  - Two legal entities sign contract covering single transaction cash flow
  - Standard documentation
  - Amount, tenor, interest rate all fixed up-front between two parties
- Conceptually replicates an inter-company loan, ideal for single-source, stable, medium or long term liquidity needs
- A tri-party Entrust Loan Agreement is signed whereby Citibank is entrusted by a Depositor to on-lend funds provided solely by the Depositor to a Borrower designated by the Depositor
- The bank acts only as a **Entrust Agent** in exchange for commission, takes no credit risk in the transaction and arranges no funding.
- By regulation, no Interest Rate floor is mentioned. However, it is intended to be positive and reasonable



## Payment Systems in China

### Inter-City Payments

1. Commercial bank proprietary systems
2. “Big four” banks (ABC, BOC, CCB, ICBC)
3. CNAPS
4. HVPS
5. BEPS



China

## Payment Systems in China

- **China National Advanced Payment System (CNAPS)**
  1. Built and owned by PBOC
  2. 8,694 banks in 324 cities now connected
  3. NPC in Beijing and 32 CCPC's
  4. Challenge with bank codes – not market practice
  5. Processing delays



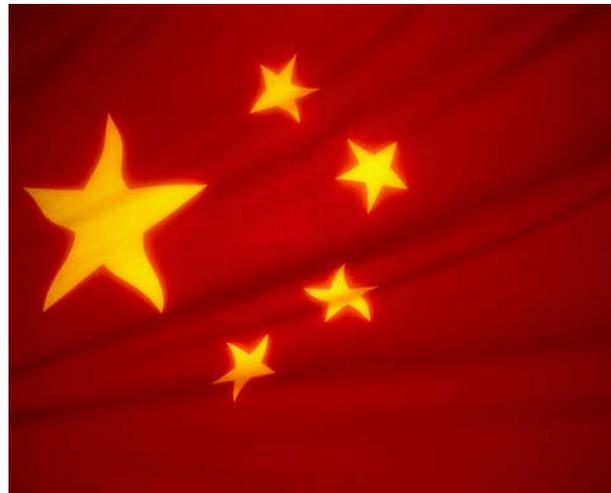
## Payment Systems in China

- **Bulk Electronic Payment System (BEPS)**
  1. Intended for transactions < RMB 20,000
  2. Currently in implementation
  3. Funds settled on a bilateral netting basis
  4. Settles three times daily
  5. Reduced processing fees due to netting scheme
  6. Live in early, mid-2007



## Payment Systems in China

- **High Value Payment System (HVPS)**
  1. Intended for transactions > RMB 20,000
  2. Operates on a gross settlement basis
  3. Each payment clears as processed
  4. Paying bank's account debited at same time as receiving banks' account is credited



## ***FX Regulation: “Pudong Nine Measures”***

- **What are they?**
  1. **Pilot program designed to relax foreign currency restrictions on qualified MNC’s.**
  2. **Established by SAFE and Shanghai Pudong City Government in October 2005.**
  
- **Why was the program introduced?**
  1. **Designed to comply with SAFE’s directives of “independent initiative, controllability, and gradual process”.**
  2. **To enable MNC’s with regional headquarters in the Pudong New Area to run corporate treasury functions more effectively.**
  
- **Qualifications?**
  1. **Chinese or foreign MNC’s must be based in Pudong**
  2. **They must own Chinese or foreign subsidiaries, and**
  3. **They must have a China-based member-company managing the group’s investments globally or for a China inclusive region.**

## FX Regulation: “Some things remain the same”

- Requirement to convert FCY funds to RMB within 90 days of exceeding the account cap limit.
- Declaration to SAFE for FCY payments above USD 100,000

Progress considered slow by some standards, however.....

“we are not so much concerned if you are slow as when you come to a halt”



## Concluding thoughts....

- “China signs accords with 16 African states” – San Francisco Chronicle, 11/6/07. “...16 trade and investment deals valued at \$1.9 BN...as Beijing extended its efforts to create broad economic and diplomatic partnerships in Africa, a resource-rich continent.”
- “Bank reserve requirements were raised 50bps effective Nov. 15 to 9.0% for state-owned banks and 9.5% for smaller banks” – Citibank Daily FX Update 11/6/06.
- “The renminbi appreciated a further 0.2% this week to close at 7.8735 per US dollar, raising the cumulative US dollar depreciation over the last two months to 2.6%.”
- May 2006 AFP Exchange

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