Risks And Rewards In The Hong Kong-China Corridor

published on 25.07.2017

In this Corporate Treasurer article, read about the risks and rewards of operating in the HK-China corridor and as to how BNP Paribas' extensive network can work to your advantage.

Opportunities come to corporates and their banks who are agile

This is the BNP Paribas philosophy that extends across all of Asia-Pacific and beyond. And a good example of that in action is within the China-Hong Kong corridor where the European bank serves multinational companies with operations in China and Chinese corporates growing their businesses out of the country.

China plays a huge role for many of the world?s largest companies. As it has opened its borders to foreign investment, so too has it incrementally allowed more financial tools to be made available to manage the associated risks that come with this. In turn, large Chinese companies have looked to Hong Kong to set up operations with a view to tapping the financial markets and funding overseas ventures. The city-state?s rule of law, open markets, and close proximity to supporting services ? law firms and consultants ? have proven very attractive ? as increased corporate rental prices attest to. To capitalise on these commercial opportunities, corporate treasurers have to know intimately what services and financial tools are available to them, particularly in relation to the flow of money into and out of China.

The country?s top regulators the People?s Bank of China (PBoC) and State Administration of Foreign Exchange (Safe) ? have ensured that this two-way demand flow is accommodated. Cross-border pooling, easier payment mechanisms, and more flexible financing mechanisms have all become a mainstay of the financial landscape in recent years.

Concerned about the flow of capital out of the country, China still maintains control over the valves to these services, and in some cases, has introduced measures that ensure the legitimacy of capital and trade flow in and out of the country. For some multinational companies this has meant they have had to become very adaptive to changes that affect their liquidity or funding strategies.

?It is important to understand what China?s priorities are: to de-leverage, stabilise the renminbi, and control outflows,? said Loic Senechal, head of transaction banking for China. There is a clear rationale to its activity and it is important to know that the top regulators want the market to be confident in China?s future. In this context, corporate treasurers should not make assumptions based on headlines in the mainstream press. They need to keep their finger on the pulse and get the full picture on what can be exercised and what cannot.

?Business has not stopped, the possibility to move cash out has not stopped, getting a good yield on Chinese deposits is there, and gaining funding from Hong Kong into China has now been opened up further,? Senechal said.

Many large multinational companies with operations in China typically look to funnel their earnings into offshore regional treasury centres and move it back to headquarters. Yes, China has made this a little harder to achieve, but it remains far from impossible. Recent updates indicate it is prepared to be more flexible when the business reason is justified, especially for corporates.

?It?s therefore vital to be agile,? said Senechal. ?When an opportunity arises, or a corporate treasurer needs to act fast, you need to work with a bank partner who can help you act quickly.?

RAISE OFFSHORE, BRING ONSHORE

Take the Nationwide Offshore Financing Scheme, for example. Recent PBoC updates mean that for China-based corporates to borrow offshore under the scheme, in the form of loans and bonds, the quota is doubled.

?Exempted from the quota utilisation is foreign currency trade financing for trades such as prepayment, and trade financing obtained from offshore banks,? explained Timothy Lee, head of transaction banking for Hong Kong. ?But, more importantly, the regulator is making clear that there are means to raise offshore and fund onshore and it is keen to make it easier to do so.?

NOT SO BAD

Other examples include the introduction of electronic bankers acceptance drafts. In a bid to put a quick end to the burgeoning number of fraud cases stemming from paper-based bill transactions, the PBoC in September decided to ban the use of high-value paper drafts. Under the new rules all commercial bills worth Rmb3 million and above must be issued and transacted electronically. That threshold will go down to Rmb1 million in 2018, further limiting the circulation of high-value paper bills in the market.

Additionally, finance companies operated by Chinese state-owned enterprises (SOEs) and large multinationals can carry out online clearing of electronic bills, making it much easier for them to promote and manage intra-group and external e-bill transactions. Senechal said: ?The rules came out and banks needed to react fast. We have a somewhat unique proposition in Asia, where we?re responsive to clients and we can create bespoke solutions. Because of this we were able to set up the platform within two months and propose solutions to our clients, some of whom are now capitalising on this.?

CHINA GOING OUT

The story extends beyond more traditional forms of transaction banking services. As Chinese companies become increasingly hungry to acquire companies abroad, they need to be very aware of the market and the banking environment they are moving into. Any company takes huge operational risks if they don?t plan their acquisition with the corporate and transaction banking piece in mind.

Partnering with a bank with an extensive international network results in greater efficiencies of cash flows as transactions are floated through proprietary networks. For instance, concentrating cash through cash pools is far more effective than intercompany fund transfers,? said Jeffrey Ngui, head of regional sales, cash management, for Asia Pacific. This is where a trusted financial institution with a broad global network needs to earn its spurs.

Many banks might be able to provide the M&A advisory portion of the service, but how many can offer the market knowledge that comes with having deep banking roots in Europe, for example?

Take the recent offer from Shenzhen-listed Aier Eye Hospital Group to acquire Spain Clinica Baviera, marking the takeover of a Spanish company by a Chinese corporate. BNP Paribas? acted as the exclusive buy-side advisor to this transaction. Importantly, to help get the deal over the line, the transaction banking division worked with the Investment Banking Asia-Pacific team to structure a payment financial guarantee that met the Spanish market regulator's approval. The structure required excellent communication between the Hong Kong and Spanish departments to get the deal done and showcases BNP Paribas' international network and "One Bank" approach.

In December last year Alipay agreed to work with BNP Paribas to enable the 16 million Chinese tourists who travel outside Asia every year to pay for their purchases with their Alipay mobile app. Initially available in France, this service is extending across the rest of Europe and is another example of BNP Paribas? network strength. Lee said: ?What is required is high quality service, clear understanding of the markets you operate in, and your client.?

COMPARISON OF DIFFERENT FOREIGN DEBT SCHEMES

ENTITY TYPE	OFFSHORE FI		
	2017 SCHEME	2016 SCHEME	I
Corporate (excluding Local Government Financing Vehicle and Real Estate)	Net asset x 2	Net asset x 1	1 2
Non-banking financial institution (Legal entity)	Paid-in capital or equity + capital reserve	Paid-in capital or equity + capital reserve	A
Bank (Legal entity)	Tier 1 capital x 0.8	Tier 1 capital x 0.8	I T T
Onshore branch of foreign bank	Operational capital x 0.8	N/A	I T T

Source: BNP Paribas

Article: **Corporate Treasurer?s Treasury & Cash Management Guide 2017/2018**. Image: Corporate Treasurer

Netherlands Antilles
