A CHANGING CHINA: ADVANTAGES OF DOING BUSINESS IN THE LOCAL CURRENCY

Over the past decade, U.S. trade with China grew more than 3½ times faster than total U.S. foreign trade. If you are one of the growing number of companies doing business in China, recent moves to liberalize its currency can have substantial bottom-line benefits for you.

Over the last several years, China has embarked on a program to liberalize its currency, the Renminbi, or RMB. Renminbi can now be held and invested overseas in Hong Kong and other jurisdictions, and can be used for cross-border payments in and out of China. Foreign companies no longer need to have a legal entity established in China or Hong Kong in order to open a RMB account.

Prior to 2011, due to Peoples' Bank of China restrictions, many U.S. companies with expenses in China had no choice but to send U.S. dollars (USD) to be converted into local currency by an onshore entity.

This is an expensive and time-consuming process that exposes U.S. companies to unfavorable exchange rates and other costly disadvantages.

As an importer paying in USD today, your supplier in China is faced with additional administrative costs, time delays and the need to build in price buffers for currency fluctuation. The People's Bank of China itself has estimated that the administrative costs alone of transacting in USD is 2–3% higher than dealing in local currency.

In addition, Chinese suppliers often hedge currency risk by embedding extra margins in the price. By agreeing to pay in RMB, you may be able to negotiate lower prices from your supplier by eliminating these costs. The cost reduction that can be realized from paying in RMB can mean saving $10,000 to $15,000 on a $500,000 invoice.

> Companies can easily make and receive RMB payments and may also benefit from a broader array of tools to manage Chinese currency risk.

DOING BUSINESS IN RMB

Conversely, if you are selling products or services in China, you may be able to improve your competitive position and cash flow by offering to accept payments in RMB.

Your list of prospects can expand if you accept payment in RMB, particularly if you are selling to a sector that does not regularly deal in foreign currencies.

Historically, the only tool available to hedge the RMB was non-deliverable forwards. Now deliverable forwards and options strategies can be used, providing the potential to increase the effectiveness and decrease the overall cost of hedging.

Renminbi payables or receivables can be hedged in the deliverable forward market, which facilitates hedging future currency risk.

Although U.S. companies have historically believed that negotiating international agreements in USD insulates them from exposure to currency volatility, it also puts them at a competitive disadvantage compared to companies that transact in local currency.

> If you are currently conducting business in China or have exposure to China through vendors, customers, facilities or subsidiaries, understanding how to take advantage of changing currency regulations may pay significant dividends.

Ready to Help

By working with PNC, you gain access to a broad range of financial services from an institution recognized for excellence internationally. PNC's Shanghai Representative Office can provide assistance and general guidance on the local banking environment and doing business in China.

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