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China Leading the Recovery

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With China's gross domestic product growth forecasted at 9.1% in 2010 by the Asian Development Bank, multinational corporates (MNCs) that choose to disregard the Chinese market do so at their peril — this huge resilient market will be key to global economic development in the years to come.

Beginning to do business in China can appear to be a challenging proposition, yet perseverance is likely to be worthwhile — especially at a time when many overseas companies with operations here are benefiting from China's strong rebound, while sales in their home markets have slowed down as a result of the recession. Indeed, multinational corporates that ignore China may well already be losing out as their competitors reap the rewards of being first-movers into this exciting market.

While low-cost production used to be one of the key attractions of China, this is no longer the case for many industries. Now, the focus is on China's economic expansion, which has seen the country turn into a major importer of Western goods and services, resulting in the emergence of a dynamic middle class with strong purchasing power. This continues to drive the country's demand for consumer goods and financial services, making this market difficult to ignore for many overseas corporates.

A Challenging Environment
Whilst China is an attractive market for business, there are challenges to be addressed. For example, many clients encounter difficulties in finding and retaining adequate talents. While there is undoubtedly a very large pool of very talented people in China, the sharp growth in demand that we have seen over the past decades has stretched this talent pool significantly.

Another key concern is to have greater access to capital markets and funding. Whilst it is recognised that the Chinese authorities are currently making a concerted effort to open their market, there is still much to be done. With a large and fast-growing Chinese economy, the primary priority of regulators is to ensure that they have good control over the development

— an understandable concern — and corporates must therefore learn to take a long-term view on how they can continue to grow their businesses in this environment.

Corporates wishing to do business here will benefit by leveraging a transaction banking partner that has a robust financial standing and is able to offer strong onshore expertise, complemented by an extensive international network, combined with an array of market-leading technological solutions. In a large market such as this, technology that enables transparency and control can generate significant efficiencies in many aspects of cash and transaction management.

A Changing Regulatory Landscape

With respect to cash management, a key priority at the moment for Chinese corporates — as well as multinationals doing business here — is maximising the value of available funds and implementing liquidity solutions to unlock cash trapped in financial supply chains and other processes. In terms of regulations pertaining to these activities, the China Banking Regulatory Commission (CBRC) recently announced new regulations on working capital facilities and how these facilities can be considered and monitored.

Part of CBRC's motivation is to minimise speculative activity in the market, and this will mean that there is much to be done by the banks to ensure compliance with these new regulations. There will be a significant impact on market liquidity as banks begin to tighten lending standards, and strict monitoring of how funds can be used.

Other notable regulatory activity has come in the form of the RMB Offshore Trade Settlement Programme, a long-term project that may lead to the internationalisation of the RMB. Introduced in July 2009, the programme has allowed selected enterprises in mainland China (Shanghai and four cities in South China's Guangdong Province) to settle cross-border trade transactions initially with corporations in Hong Kong, Macau and other Association of South East Asian Nations (ASEAN) countries in RMB where they previously had to use USD or other foreign currencies. Given its success, Chinese authorities have announced the expansion of the programme to approved corporates in 20 provinces, up from an initial two, and permitted the use of RMB in transactions between approved provinces and any country.

Under earlier arrangements, companies trading with Chinese corporates would have to exchange their domestic currency for USD in order to settle transactions. On the other hand, Chinese exporters would have to factor in the expected USD forward rate into their selling price, knowing that they would need to convert back to RMB in order to pay for working capital expenses such as raw materials and overheads. This had led to an inefficient situation, as two essentially redundant foreign exchange transactions would have to take place each time a trade was settled.

In light of this initiative, Deutsche Bank has enhanced its suite of RMB-denominated services in Hong Kong in order to help clients optimise benefits from the programme. While the initiative is certainly welcome — and one which augurs well for China's economic future — it will take time before the RMB becomes a global currency for trade settlement.

In summary, China has been able to turn the financial crisis into an opportunity to showcase its continuing strength to weather the ongoing market changes, and to show the world that it has emerged as a key player on the world economic stage. While China is not immune to global economic stresses, the ongoing regulatory monitoring and the sheer size of the economy — with 1.3 billion consumers, many of which are the growing middle class — will continue to be some of the key catalysts that will help the country to buffer the ongoing market volatility and keep the global economy going.