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Western-style credit reporting emerging in China

The global economic slowdown is one of several factors shaping the development of Western-style credit reporting in China.

As attractive as it has become for U.S. companies, doing business in a China that's still migrating to a market-driven economy presents many challenges. One of these — credit risk management — will become more important if, as expected, China's percolating growth numbers begin to only simmer as the forecasted global economic slowdown settles in.

Until recent years, commercial credit was literally a foreign concept in China, according to Tim Thomann, a Dallas-area board member of 3ACredit, a Shanghai-headquartered provider of credit reports and receivables management consulting and other related services in China. "A decade ago, most transactions in China were 100% secured transactions," Thomann says.

But that's changing. "The Chinese government now understands that to compete in the global marketplace, they need to develop a credit market," Thomann says. "And they've had an initiative for the past five years to start focusing on that area."

Indeed, as more foreign banks buy stakes in Chinese banks, local lending practices become more market-oriented and consumer finance takes off, China's financial services market is undergoing a marked change.

Open account terms

China is rapidly opening up to the world and has become a particularly attractive market to U.S. companies because of its strong economic growth and huge trade surplus.

More and more U.S. products and services are sold to Chinese customers on open account terms. Thomann reports that open account trade in China has at least tripled in the past two years and will likely continue to expand for competitive reasons.

With the movement away from secured transactions and in a climate of rising costs, tighter margins and slowing exports, U.S. companies trading with China bear increased credit risk — adding to the need for accurate and current credit information on Chinese companies.

Local production and sales

Another trend driving the need for Western-style credit reporting and management practices has been many large U.S. multinational companies making the strategic shift from exporting to China to moving production and sales there.

In-country transactions in China pose an entirely new set of credit management challenges, Thomann says. As examples of hurdles he cites China's fledgling and untested legal structure around bankruptcies, the use of local letters of credit that don't observe UCP 600 rules, and unique check and draft payment practices.

State of credit reporting industry

The onset of a global economic recession is likely to create additional risk in doing business with Chinese companies that have come to expect double-digit growth — and may be more prone to sputter when their growth numbers dip into the single digits.

For all these reasons, finding effective credit reporting resources in China is becoming critical to U.S. companies. Fortunately, a credit reporting industry has begun to emerge in China.

Just a few short years ago, Thomann says, companies primarily had to work with attorneys to obtain reliable credit information on Chinese companies. However, he now estimates there are more than 3,000 credit reporting agencies in China. The problem for U.S. companies is that there still are no real standards for the information those agencies provide.

Shopping for a provider

Thomann says the credit reporting market is evolving rapidly, but in the meantime U.S. companies need to be particularly smart shoppers. He offers three simple pieces of advice:

- Because there are no industry standards for the types of information that a credit reporting agency will provide, make sure you select an agency that offers all the information you believe you need to make a sound credit evaluation.
- Ensure that the information the agency provides is current.
- Select an agency that offers reports on Chinese companies written in English.

If you need help in establishing effective credit management practices and resources for your business in China, be sure to consult with your RBS global trade finance advisor.

If you would like further information about 3ACredit, you may contact Tim Thomann at trthomann@gmail.com, or visit www.3acredit.com. Please note that neither 3ACredit nor Mr. Thomann is affiliated in any way with RBS, which takes no responsibility for any information or advice either party may provide.