YOUR GUIDE TO NAVIGATING THE CHINESE RENMINBI

An opportunity for your business to shine
If you’re doing business with China today, don’t let the RMB detract from your profits.
Access to RMB means new business opportunities

For most of its existence, the Chinese renminbi (RMB) hasn’t been allowed outside of China’s borders. Foreign businesses had to pay Chinese suppliers in dollars (or another major currency) which were then converted and delivered to the Chinese company in their local currency.

This convoluted process made it difficult for foreign businesses to negotiate pricing because local companies had to cover the cost of RMB conversion. Not to mention, the settlement cycle was slow and cumbersome, and there was little transparency around foreign exchange fees.

However, in 2009 policymakers began opening up access to the RMB. Which means that today, it’s now possible for Western companies to directly manage the exchange rates applied to their transactions with China. While this increases payment transparency, speeds up settlement and helps to lower costs, many businesses find the new process daunting.

If you’re doing business with China, don’t let the RMB get the better of you and your profits. Take advantage of the following handy insights to smoothly navigate your way into China.
The first thing to understand about the internationalized RMB is that there are three markets, or ‘avenues’ of payment.

These markets remain distinct from each other, with unique functional advantages to each.

It’s possible to increase savings and transparency by using different currency codes for different types of payments. But this requires deep knowledge of market conditions, and is best done with the assistance of an experienced currency provider.

Read on for an explanation of each market.

CHINESE ECONOMY TIMELINE

1978 Reformist leader Deng Xiaoping announces open door policy
1984 Opens up 14 cities and 3 regions to foreign investment
1990 Stock markets open in Shanghai and Shenzhen
2010 China overtakes Japan as second largest economy

How to navigate China’s 3 markets

1 Onshore Chinese yuan (CNY)

The CNY currency code refers to renminbi traded within mainland China. The CNY is only partially convertible, and can only be used within China for properly documented trade-related transactions. Lending and investment transactions are severely limited.

Payments are typically settled by remitting US dollars to an onshore entity that then converts it into CNY.

Because no entities outside of China are permitted to engage in onshore CNY trading, execution rates are often less favourable when compared to CNH and NDF transactions.

2 Offshore Chinese yuan (CNH)

CNH is the two-way, fully deliverable, fully convertible version of the renminbi. It is traded outside of mainland China, mainly in Hong Kong. CNH can be freely moved between international accounts, or used to purchase onshore CNY on a 1:1 basis. However, CNH payments cannot go to an individual (with the exception of the Guangdong province), and must be for trade-related purposes where all purchased products and services will leave the country.

CNH provides more favourable pricing than its onshore counterpart.

3 Offshore Non-Deliverable Forwards (NDF)

Outside of China, many entities use the non-deliverable forward market to manage their exposures. Transactions are settled in dollars at the prevailing USDCNY rate.

With no link to the onshore spot market, businesses typically use NDFs to hedge exchange rate risks associated with China-related, dollar-settled trading relationships.

Please note: This information is for educational purposes only. Western Union Business Solutions does not offer all products in all jurisdictions.
5 tips to unlock the RMB

Many Western companies remain inflexibly tied to the US dollar, leaving others to explore the opportunities for increased efficiency and cost savings. However, paying Chinese business partners in RMB has never been easier – or more profitable. Here are a few key considerations:

1. **The RMB could save you money**
   Paying in RMB can be good for your bottom line. When Chinese companies handle the currency conversion process themselves, they incur additional costs which are then added to their invoices. People’s Bank of China has stated that international importers can save 2% - 3% on an invoice by paying in RMB*. Let your business partners know upfront that you can pay them in local currency.

2. **Strengthen business relationships**
   Many Chinese exporters believe their foreign partners are unable or unwilling to pay in RMB, so they rarely broach the subject proactively. Simply opening the discussion can deliver financial benefits – and deepen your business relationships.

3. **Faster payments could improve cash flow**
   In our experience, CNH payments are received much more quickly than their USD equivalents. For businesses, this is a key advantage – speeding up the settlement cycle can help optimize cash balances and dramatically reduce back-end processing costs.

4. **Make it easy for business partners**
   In many cases, receiving RMB instead of dollars can help onshore partners streamline customs declaration procedures and reduce reporting requirements. Talk to your beneficiaries about the processes that must be put into place in order to support this effort.

5. **Beware of hidden exposures**
   Settling transactions in US dollars does not make foreign exchange risk disappear; it simply makes it more difficult to control. If the RMB rises in value, US dollar costs will also rise. Non-deliverable forward (NDF) contracts can help to protect against swings in the RMB exchange rate over longer time horizons†.

* China Daily, 2012 http://usa.chinadaily.com.cn/business/2012-10/31/content_15859117.html

† Western Union Business Solutions offers various foreign exchange products and this is an example of one of those products and is not a recommendation. This is factual information only and we have not considered your relevant circumstances. You must read the relevant product disclosure statement prior to making any decisions.
An opportunity for your business to shine in China

China is a rapidly growing economy that many believe has the potential to become a global powerhouse. If your business is tapping into this RMB opportunity, start paying your partners in their local currency and position yourself to negotiate better pricing levels.

By taking advantage of this currency opportunity, you can bring predictability to cash flows and strengthen your business relationships.

CHINESE GLOBAL TRADE

In 2014, China’s total external trade reached **US$4.30 trillion**, ranked the first in the world.

Source: Wikipedia.com; china-trade-research.hktdc.com
Gain further insight on protecting your profits from currency risk

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