# 2019

# CHINA BUSINESS OUTLOOK

# Contents

# Introduction

The Chinese economy offers local and global corporates extensive opportunities, but it also requires careful navigation of the regulatory framework and the changing macroeconomic environment. In recent years, external factors – including tensions with the US – have added to the challenges of doing business in China or with China entities offshore under the Belt and Road Initiative (BRI).

In this context, Asset Benchmark Research conducted a survey on behalf of Standard Chartered Bank in the fourth quarter of 2018. The project started in mid-November and spanned a month during which 166 corporate treasurers and senior treasury/finance executives from Asia, Europe and MENA were surveyed.

The survey, which was conducted 12 months after the last iteration in Q42017, reveals how CFOs and treasurers view the outlook for the China economy and their China businesses. It shows how, after a period of currency appreciation in 2018, CFOs and treasurers are adapting to the renminbi's depreciation against the US dollar. It examines their strategies for dealing with the credit crunch and their planned activity in offshore renminbi products. It also provides detail on the risks and rewards of participating in BRI projects.

Respondents are segregated according to their business interactions either with overseas or China entities. They are classified as importers, exporters, those that both import and export, and firms that buy and/or sell to their own subsidiary. A fifth category is used for China corporates that are buying and selling domestically. For overseas companies, there is an option for firms that have no business or investment in China. An extra option is added this round for overseas companies that have no business interests in China but have planned or existing activities related to the Belt and Road Initiative.

# Executive Summary

- Although treasurers are divided on their expectations for their China business outlook in 2019, two-thirds of respondents (68%) give a positive or neutral forecast.
- As they examine their China business prospects, the top three concerns of respondents are lower than expected economic growth, the continuation of the US-China trade tensions, and policy uncertainty. Respondents were asked how they fund their China business. The most prominent channel of funding during the liquidity squeeze is the use of onshore cash reserves. Domestic loans in China and cash reserves from overseas operations are the second- and third-most frequent liquidity solutions for corporates. However, bond issuance is the last resort for most respondents.
- Echoing the Q4 2017 survey, the resurgence of offshore RMB usage has continued this round. The three most popular products among active respondents are cross-border trade settlement, FX transaction, and offshore renminbi deposits. The less popular products among survey respondents by a small margin are cross-border cash pooling, cross-currency swap structures and offshore renminbi loans. Foreign currency and capital controls are cited as the main obstacles for increasing the usage of RMB products.
- The majority of corporate treasurers (65%) choose not to hedge their RMB exposure, which represents a substantial increase from 51% in the previous survey.
- Just over half the respondents (54%) expect a further depreciation of the renminbi in 2019 in the range of 7 to 7.2 against the US dollar. A minority (8%) expects to see the Chinese currency trading in the range between 7.2 and 7.5 while a group of five outliers (3% of the total) estimates a depreciation to more than 7.5. At the other end of the spectrum, one-third (34%) of treasurers believe it is likely the currency will continue to trade below 7 in the year ahead.
- When respondents are asked how long they expect the trade tension with the US to last, more than a third (37%) expect the tensions to be resolved by the end of 2019. However, a surprisingly large proportion of companies (63%) thinks the friction could last more than three years. In fact, one in 10 expect a resolution to take five to 10 years. Indeed, five respondents have an extremely pessimistic view saying it will take more than 10 years.
- Questioned on policy changes that would benefit their businesses, China corporate respondents believe they would benefit most from easier credit conditions in 2019. For overseas MNCs, a more flexible cross-border liquidity management environment tops the wish list.
- The majority (82%) of companies are aware of BRI, which is similar to the 88% recorded in the previous survey. However, there was a large increase in the proportion of companies that are already involved in BRI projects with more than one-quarter of companies surveyed (27%) in this category compared to 17% previously. A further 17% (18% in 2017) are actively considering BRI projects. There is a distinct difference between companies based on their domicile: Asian Corporates (51%) are more actively participating or considering investment in BRI projects compared to Western MNCs (17%).

# Methodology and respondent distribution

Email invitations to take part in the 2019 China Business Outlook with a link to the online questionnaire was sent to CFOs, treasurers, finance directors and senior treasury managers in corporations in China, North Asia (Hong Kong, Taiwan and South Korea), South and Southeast Asia (Singapore, the Philippines, India, Malaysia and Indonesia) as well as Europe, the US, Africa and MENA;

- Two language versions were available: English and simplified Chinese;
- Follow-up in-depth interviews were conducted with 23 respondents;
- The respondent distribution of the sample is 34% from China, 31% from North Asia (ex-China), 30% from South and Southeast Asia and 4% from Europe and the US;
- Two out of five (40%) the corporates surveyed are large with an annual turnover greater than US$1 billion;
- A quarter of respondents (27%) are small companies with a turnover below US$250 million;
- Three in ten respondents (30%) have over 1000 employees working in their company at the location where they are based and one third of the respondents have 100-999 employees;
- The majority of companies (57%) are in the industrial and manufacturing sectors, conglomerate, energy and mining or aviation and transportation;
- Four out of ten companies (40%) in China are mostly buying and selling to domestic entities, similar to the findings of the previous round;
- Three in ten (31%) overseas MNCs operate their business within their corporate group, buying and selling to their China subsidiaries.

FIGURE 1**. Respondent distribution by region**

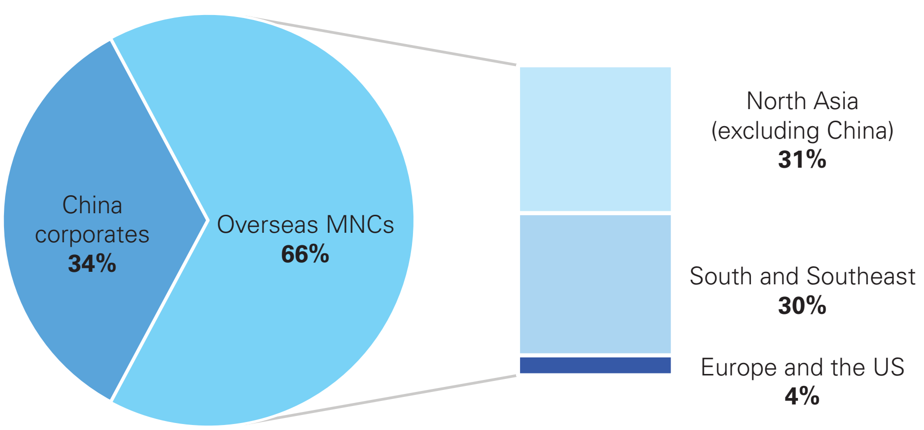


FIGURE 2. **Respondent distribution by group turnover (US$ million)**

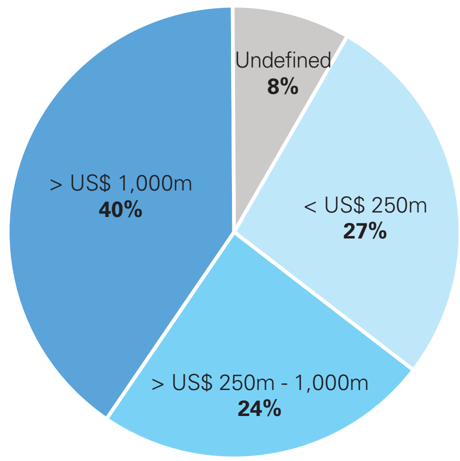



FIGURE 3. **Respondent distribution by sector - China corporates vs overseas MNCs**

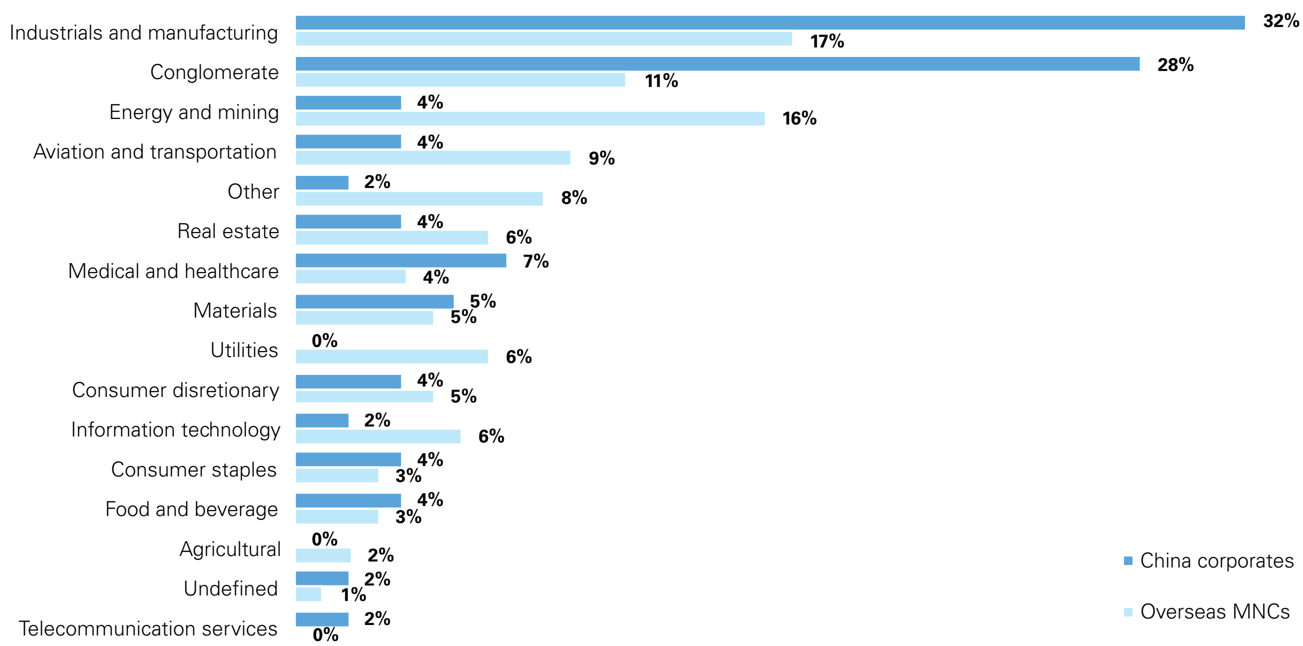
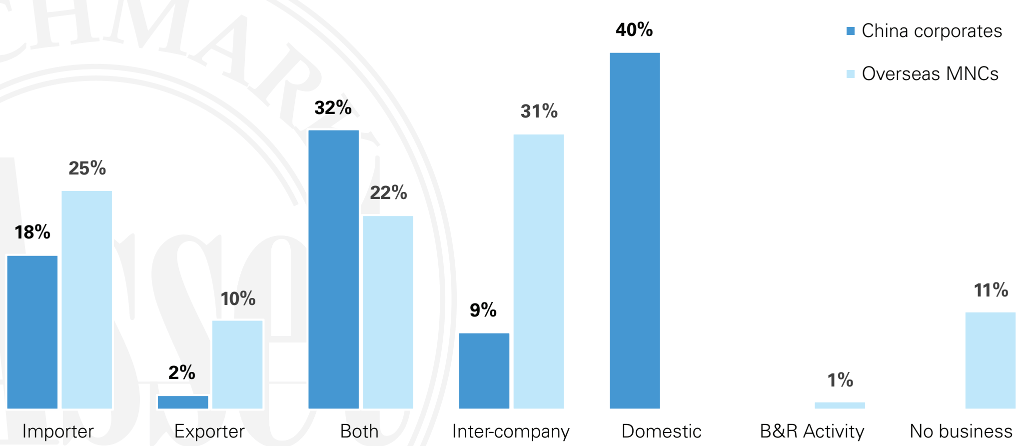



FIGURE 4. **Respondent distribution by main business interactions - China corporates vs overseas MNCs**



# Cautious optimism on China business outlook in 2019

*Although treasurers are divided on their expectations for their China business outlook in 2019, two-thirds of respondents are either positive (48%) or neutral (20%) in their forecast. There is a stronger consensus, however, on the Chinese currency with most believing that the RMB would not be depreciate beyond 7.2 against the US dollar by the end of the year. Interestingly, companies with lower annual turnovers tend to be more bullish and large corporates with annual turnovers above US$1 billion tend to be more conservative. Most are confident that the US-China trade tension will end within three to five years. The 90-day-truce reached in December appears not to have affected treasury managers' views on the trade tensions, suggesting that any similar truce achieved in the future would have minimal impact on corporate confidence.*

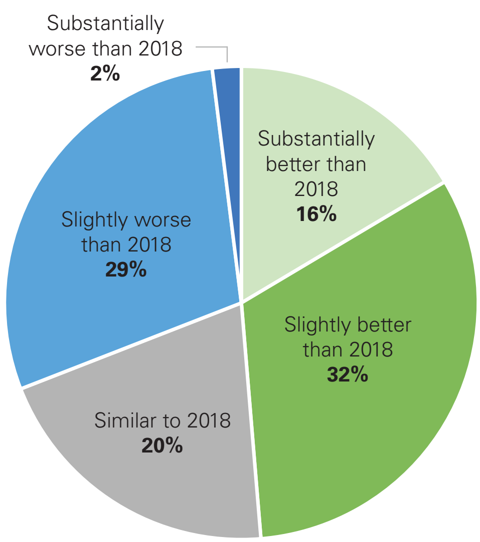
**Upbeat mood despite economic headwinds**

Despite, the slowing growth momentum and trade tensions, one in every six corporate treasurers (16%) are exceptionally bullish for 2019, expecting their China business performance in the year ahead will be substantially better than that of 2018. *"According to the market, we can win more projects in 2019, which will make our business performance better than 2018,"* says a treasury director of a construction company based in China. One-third of respondents (32%) are more measured in their optimism saying their business will be slightly better than 2018. *"The economic fluctuation has little effect on our business. Even if there are not many good policies for our company, our annual revenue will still increase 5% to 10%,"* says a treasury manager in China. *"The US-China trade tension didn't affect us a lot,"* he adds.

One in five (20%) expects their business performance will be the same as in 2018. *"The development of our industry is limited. There will be some fluctuations in this market, which will not have a huge impact on our business performance,"* says a treasurer in China, whose company is headquartered in Taiwan.

However, the economic slowdown is affecting another third of respondents (29%) who reply that 2019 will be slightly worse than 2018. *"Our business is mainly focused on the domestic market. And we think the growth of the domestic market in 2019 will be slower than 2018,"* says a finance controller in China, whose company is headquartered in Europe. Only a handful (2%) holds the most pessimistic view, expecting their company's performance in 2019 to be substantially worse than 2018.

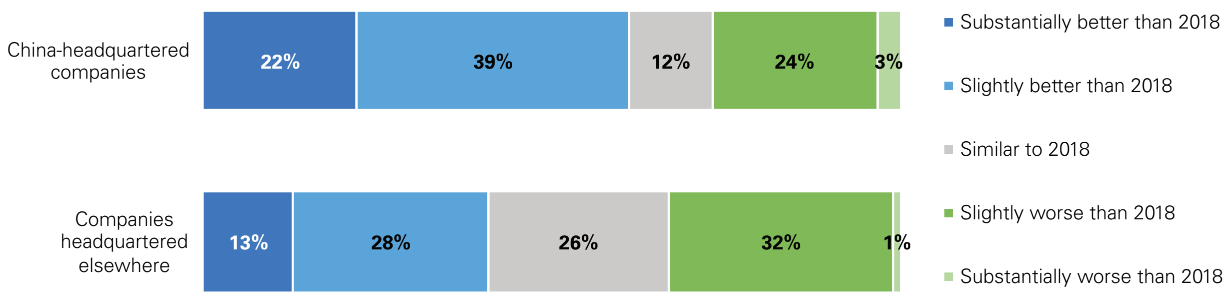
FIGURE 5. **Expectation for China business' performance in 2019**



***Differences in economic outlook based on headquarters and location***

Benifiting from local knowledge or buoyed by patriotism, China-headquartered companies show a much more positive outlook on their business performance in the current year with almost two-thirds (61%) expecting an improvement on 2018. In contrast, only 41% of companies headquartered elsewhere are optimistic about 2019, while 33%

FIGURE 6. **Expectation on the RMB exchange rate between companies by location of headquarters**



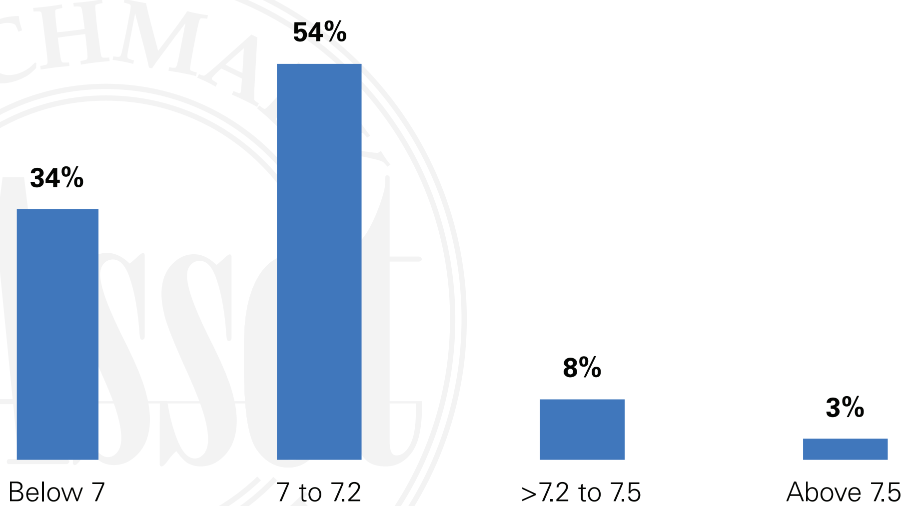

expect it to be worse than 2018.

When grouped by their location, rather than their domicile, there is very little difference in attitude. Just over half (54%) of respondents located in China expect 2019 to be better than 2018 compared to 46% for overseas MNCs. Similarly, 32% of companies located in China and 30% of overseas MNCs expect the outlook to be worse.

**Currency depreciation expected to continue**

In the second half of 2018, the renminbi weakened markedly against the US dollar. Considering the prevailing mood of devaluation, respondents were asked what they expected the exchange rate to be in 2019. Just over half the respondents (54%) expect a further depreciation in 2019 in the range of 7 to 7.2. A minority (8%) of companies expect to see the Chinese currency trading in the range between 7.2 and 7.5. A group of five outliers (3% of the total), estimates a depreciation above 7.5. At the other end of the spectrum, one-third (34%) of treasurers believe it is likely the currency will remain below 7 in the year ahead. *"The speed of China's economic development is related to the exchange rate of the RMB. If the pace of economic growth can be maintained the RMB will stay stable,"* says a treasurer in Middle East. *"I think the depreciation of the RMB exchange rate against the US$ is temporary. I still*

FIGURE 7. **Expectation on the RMB exchange rate against the USD in 2019**



***View from China corporates versus overseas MNCs, and Asian corporates versus Western MNCs***

China corporates and overseas MNCs have similar expectations on the RMB exchange rate against US dollar. Half the China corporates (49%) and 57% of overseas MNCs share the same expectation that the RMB exchange rate will lie between 7 and 7.2 in 2019.

Yet, interestingly, the annual turnover appears to correlate with respondents' expectations of the RMB exchange rate. The results show that companies with lower annual turnovers are more likely to be bullish on the RMB rate (below 7), while companies with higher annual turnover are more bearish (equal or above 7) on the outlook of the currency in 2019.

FIGURE 8. **Expectation on the RMB exchange rate against the USD - "turnover size of corporates"**

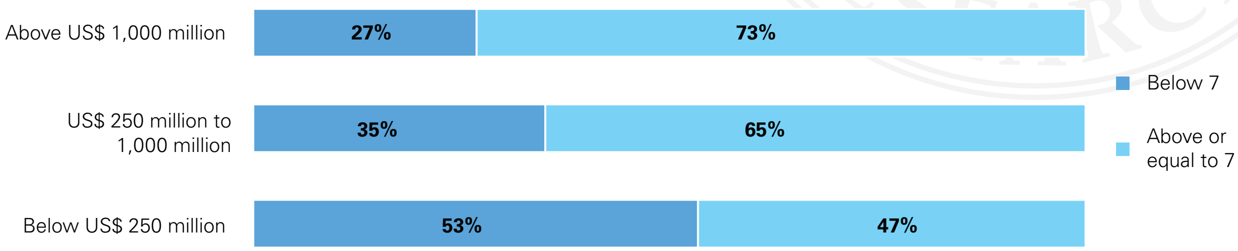
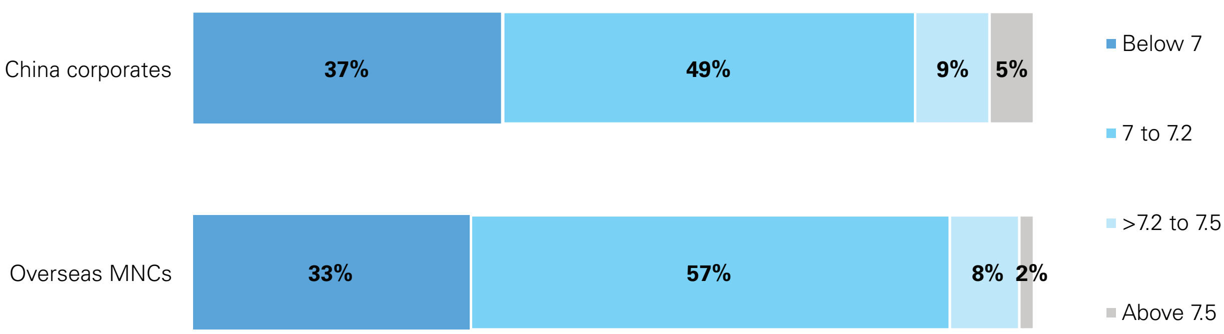



FIGURE 9. **Expectation on the RMB exchange rate against the USD in 2019 - China corporates vs over seas MNCs**



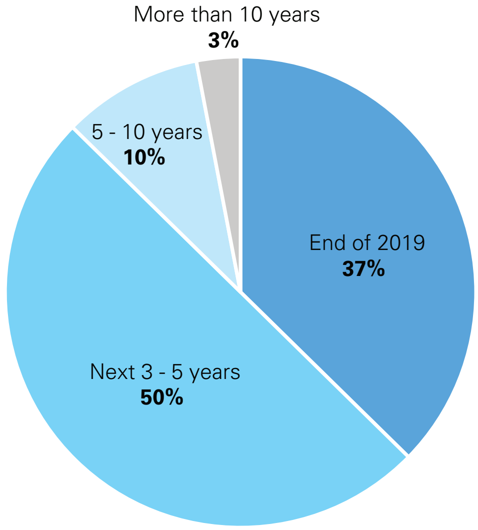

**Few corporates expect an early resolution of US-China trade tensions**

During the fieldwork (from 19 November 2018 to 17 December 2018), market expectations were that trade tensions between the US and China would be relatively short-lived. However, the 90-day truce announced during the G20 summit at the beginning of December added an interesting twist to the prevailing sentiment and researchers called respondents who had already given their opinion to ask whether the truce caused them to change their view.

While more than a third of respondents (37%) expect the tensions to be resolved by the end of 2019, an astonishing proportion of companies (63%) think they could last more than three years. In fact, one in 10 expect a resolution to take five to 10 years. Five respondents have an extremely pessimistic view saying it will take more than 10 years.

For some, trade tensions can be accommodated by switching market focus. *"Because we are importing from and exporting to overseas companies, the scale and benefits of the business will be stable. And we have business in many areas, if the trade volume in the United States declines, the trade volume in Europe and Canada can be a supplement,"* says a finance controller in a trading company in China.

FIGURE 10. **Expectation of the US-China trade tension duration**




***Views from China corporates versus overseas MNCs***

Both China corporates and overseas MNCs have similar expectations on the Sino-US trade tension (half expect it to last for three to five years) and the announcement of the 90-day-truce fails to reduce the expected duration. The proportion of sceptical responses is the same before and after the 90-day-truce was announced.

When asked to comment on the truce, most respondents stand with their original view. *"I think the 90 days are just a buffering period. This will let the two states have much clearer thinking about the situation. And I am still holding a negative view on the trade tension in the future,"* expresses a treasurer in Africa.

One of the observable reasons for such negative views is that the competition between the two super powers is not likely to be resolved in the medium to long term. *"I think the US-China trade tension will last for the next 3 to 5 years. I am cautious on this issue. But I don't think that the United States will always raise the tariffs. And they will try different ways to suppress the competition from China,"* says a financial executive in Hong Kong.

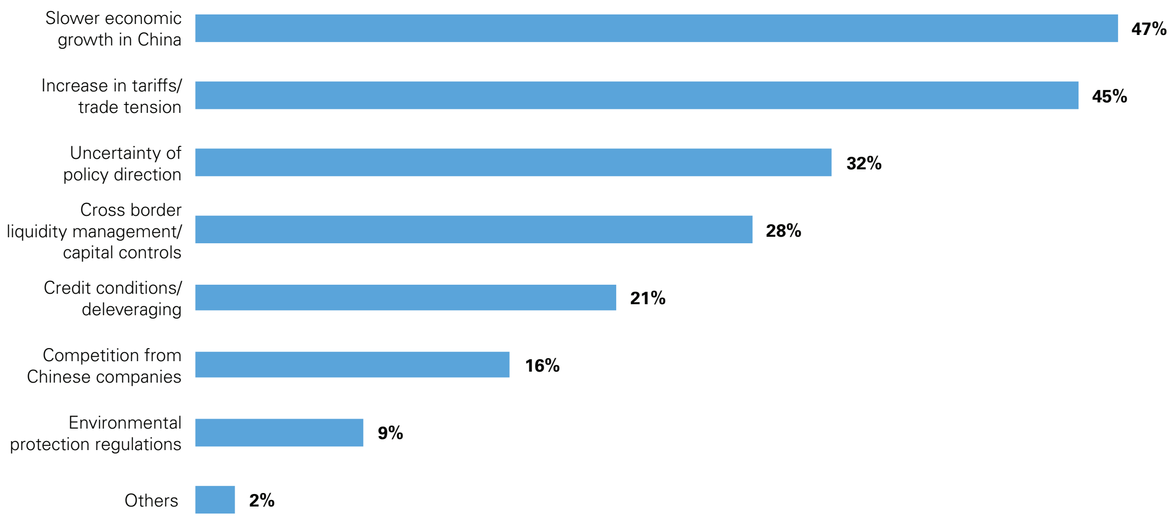
# Slower growth, tariffs and policy uncertainty cause concern

*Slower than expected economic growth, the continuation of the US-China trade tensions, and policy uncertainty have become the top three concerns of respondents. China corporate respondents believe they would benefit most from easier credit conditions in 2019. For overseas MNCs, a more flexible cross-border liquidity management environment tops the wish list. Faced with a liquidity squeeze, China corporates are more willing to use domestic loans while overseas MNCs would prefer onshore cash reserves to fund their China business.*

**Current concerns for China business**

Respondents are asked to rank their top three concerns for their China business in 2019 among the following options: increase in tariffs/trade tension, slower economic growth in China, uncertainty of policy direction, cross-border liquidity management/capital controls, credit conditions/de-leveraging, competition from Chinese companies, and environmental protection regulations.

FIGURE 11. **Biggest concerns for China business in 2019**




*% are weighted according to the rank of each option provided by respondents*

The top three concerns for China businesses in 2019 are consistent between Asian corporates with headquarters in Asia and Western MNCs with headquarters in the US, UK and Europe. The top concerns include slower economic growth in China (47%), increase in tariffs/trade tensions (45%) and uncertainty of policy (32%). *"From October to November 2018, many manufacturers' orders have been reduced by 40% to 50%. Many factories will start their Spring Festival holiday in early January. Therefore, we believe that the sluggish exports will have a negative impact on the revenue of the factories. We have talked to our manufacturers, some of their clients barely have orders,"* says the respondent from a Chinese corporate that produces and exports furniture.

***Views from China corporates versus overseas MNCs***

On closer investigation, China corporates and overseas MNCs have divergent pain points. The primary concern for China corporates is moderating domestic economic growth. *"60% to 70% of our total revenue of the wind power generation is coming from the government subsidies. We worry if the economic growth in China slows down, our company can't get the electricity subsidies in time. This will affect our overall situation,"* says a treasury manager in a China energy corporate.

In contrast, trade tension is the overseas MNCs' biggest concern. *"The projects that we invested have stalled because of politics. The United States now has tougher sanctions, which affects the cash flow throughout the country and we're also affected,"* says a corporate treasurer in the Middle East.

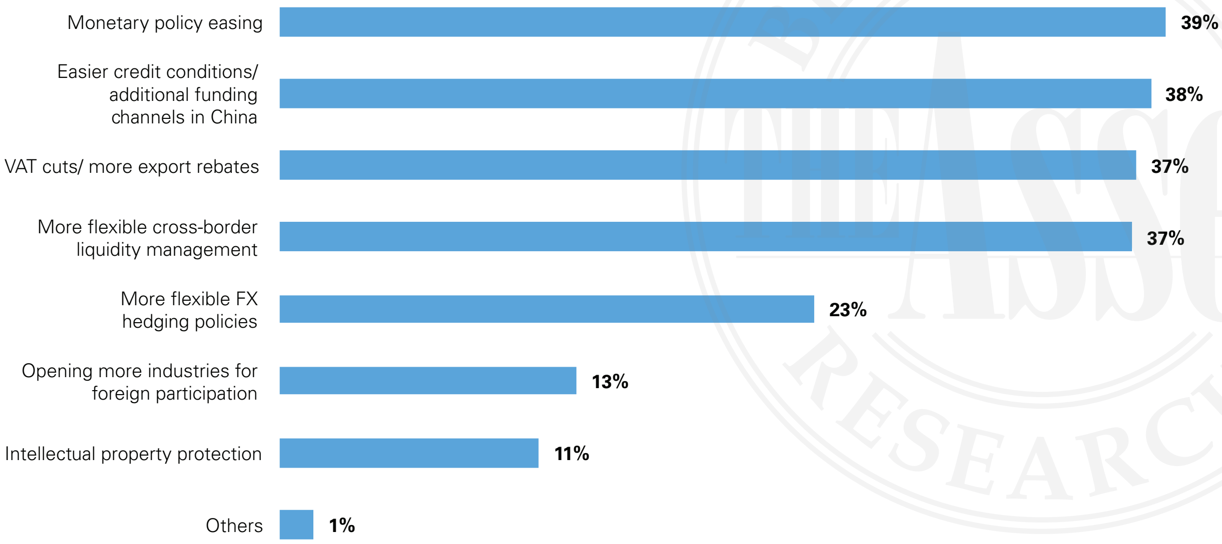
Though credit conditions and the liquidity crunch do not feature among the top three concerns overall, seven respondents raised this issue in interviews. A MNC's treasurer in China comments: *"I think the biggest concern is the credit conditions and de-leveraging. Bonds issued by the domestic private-owned enterprises have underperformed, and the economic environment is not good. So our company is afraid that there will be some negative impact on funding in 2019."* One of the respondents expresses a concern that the regulatory changes in China have caught them off guard in offshore de-leveraging. Their parent company had made an annual budget plan to reduce the overseas financial leverage for their company. However, unless they provide confirmation of projects that have not yet materialized, they are not allowed to execute the budget plan. Since they cannot match the capital plan with the corresponding confirmed projects, they could only stop de-leveraging.

The Chinese government has issued guidance and policies for private-owned enterprises' fundraising by loosening the regulations on credit approval procedures and liquidity easing. Yet it will take time for those policies to benefit privately-owned enterprises (POE). A Chinese owned POE treasurer in the Middle East describes the pressure from the liquidity crunch. *"It is not easy for some privately-owned enterprises to raise money from banks in China…… From the end of 2017 to the beginning of 2018, I found the banks that we are working with urged us to repay loans and tightened our credit lines. Compared with the state-owned enterprises, it is hard for us to issue engineering guarantees to general contractors. This is actually a credit-line problem. We are hoping that the banks can really follow the policies or announcements issued by the central government. This will help the privately-owned companies to develop well in the future,"* says the treasurer.

**Initiatives that would benefit the business**

CFOs and treasurers are asked to rank seven policy initiatives that could boost their China business. In aggregate, respondents view four policies as more or less equally important: monetary policy easing (39%), easier credit conditions/additional funding channels in China (38%) more flexible cross-border liquidity management (37%), VAT cuts/more export rebates (37%). However, there is very little support for the politically-charged policies of opening more industries to foreign participation (13%) and intellectual property protection (11%). These two areas are even more pronounced when China corporates are compared with MNCs. For example, only 8% of China companies would welcome opening more industries to foreign competition compared to 16% for overseas MNCs (see Figure 13).

FIGURE 12. **Factors that benefit corporates China business in 2019**

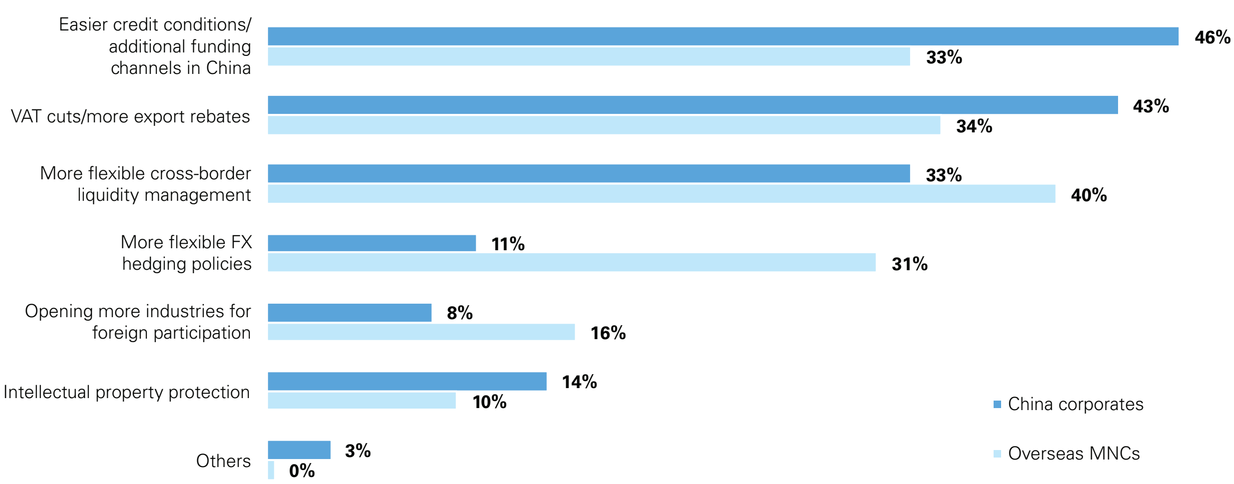



*% are weighted according to the rank of each option provided by respondents*

***Views from China corporates versus overseas MNCs***

China corporates strongly believe easier credit conditions/additional funding channels in China (46%) and monetary policy easing (42%) would improve their business. In contrast, overseas MNCs favour more flexible cross-border liquidity management (40%) and monetary policy easing (37%).

FIGURE 13. **Factors that benefit corporates China business in 2019 - China corporates vs Overseas**



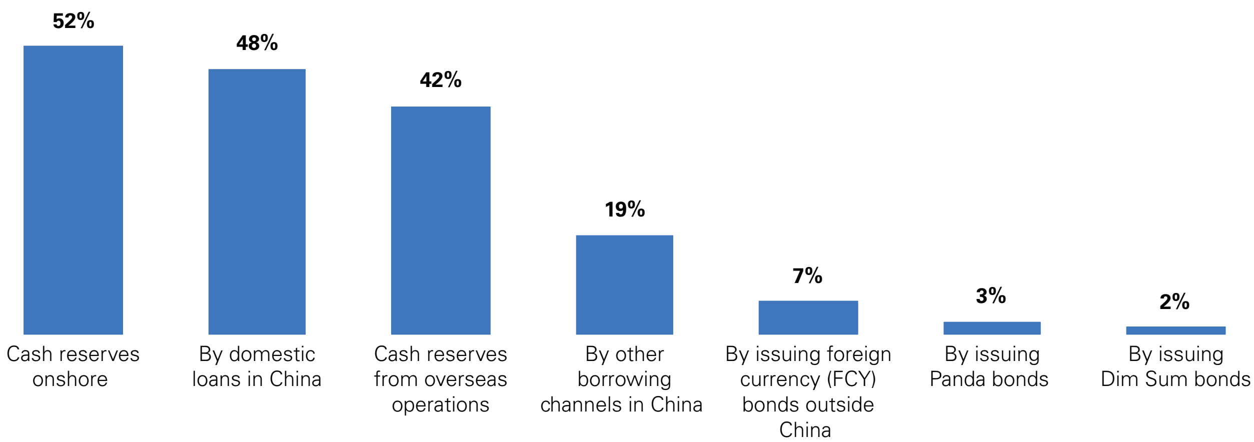

*% are weighted according to the rank of each option provided by respondents*

Both China corporates and overseas MNCs face the common stressor: a liquidity squeeze. One of the corporates caught in the crossfire of trade tension and the liquidity squeeze expresses concerns over income flow problems. *"We were in trouble, but we have enough cash reserves to smoothen our income flow problems. We asked clients to speed up their payments. There aren't any banks to help us with income flow and liquidity management. We have considered getting loans from banks, both foreign and domestic, but we are not confident to do so, and we think the banks are not confident to do so either,"* says a China corporate's treasurer.

**Funding China business through cash reserves, onshore loans prevails**

When CFOs and treasurers are asked which funding channels they use, onshore cash reserves are the most common (52%). Domestic loans in China and cash reserves from overseas operations are the second- and third-most frequent liquidity solutions for corporates. However, bond issuance is the last resort for most respondents with foreign currency bonds only marginally more popular (7%) than Panda (3%) and Dim Sum (2%) bonds. *"In China we don't need (to issue bonds) ...we don't foresee increasing our debts. It will be mostly refinancing from the existing bond as the debt matures," says a treasury manager in Singapore. "The cost of issuing bonds is high, and the period is long. Loans are the most convenient way for us to get funding,"* says a treasurer based in Africa.

FIGURE 14. **Choices of funding channels for corporates' China business**




***Views from China corporates versus overseas MNCs***

For China corporates, securing loans from domestic banks is the most popular funding channel (72%). Usually these China corporates have a good relationship with the local banks, making borrowing easier. *"In terms of the loans, we have maintained good relationships with the banks. China's economy has shown an upside trend in 2018. Compared with loans, direct financing doesn't have significant strengths. If we use the company's capital to get direct financing, it would not save costs. Therefore, we would get more loans from the banks,"* says a corporate treasurer in China.

In some cases, headquarters and subsidiaries practice different policies. *"Our headquarters and main business are in China, and our group company will raise money directly by issuing bonds. But as a subsidiary of the company, we will get funding via domestic loans from the financial institutions and banks,"* explains a treasury manager of a China corporate.

Similar arrangements are even more prevalent, as expected, among state-owned enterprises. Their funding usually comes from the state or the parent company and as a subsidiary, they do not raise financing themselves. *"Because we, a state-owned enterprise; the state; and the group will operate the large financing business... We will apply for funding from headquarters, and our revenue goes directly to the headquarters as well. The senior management are responsible for managing funding,"* notes a state-owned enterprise finance controller.

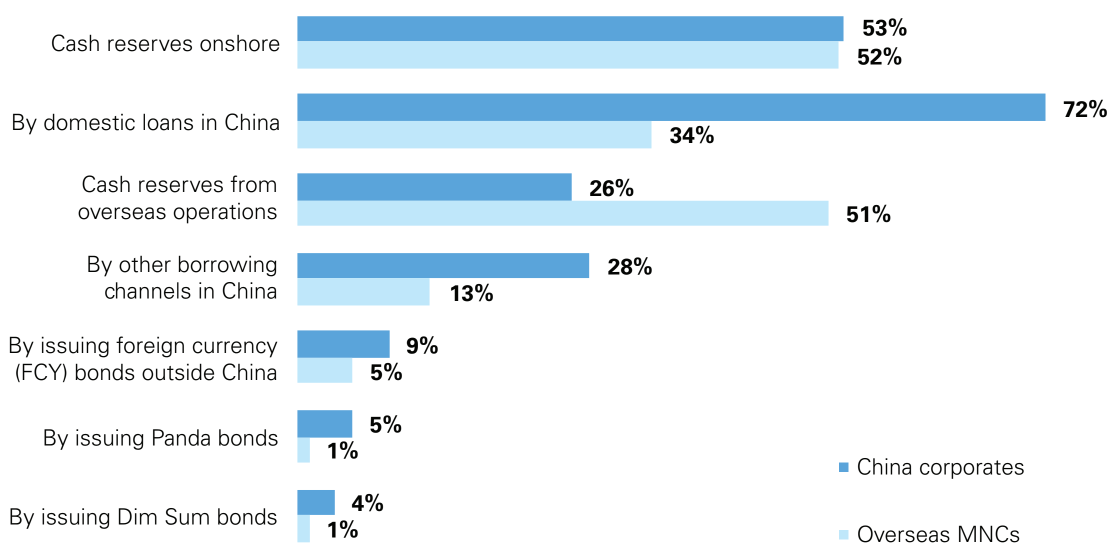
The headquarters of the company may also potentially affect the choice of funding. One company, which has undergone supply chain restructuring recently, comments that neither foreign banks nor domestic banks are willing to loan money to the corporate. *"Before, we usually worked with some foreign banks. And since we have moved [into a new sector], we are now working with some Chinese banks because our headquarters in China has a lot of cooperation with the Chinese banks. With the headquarters' help, we can work with the Chinese banks. In the past, we would not get liquidity loans from foreign banks, so we turn to Chinese banks for more cooperation,"* says a treasury manager in Singapore.

The survey indicates, not surprisingly, that small and medium-sized companies will face the most severe credit conditions. *"Banks are now paying more attention to companies' gains and risk management, so it might be more difficult for most small and micro enterprises to get loans,"* says a treasurer manager of a state enterprise in China.

Over half of the overseas MNCs respondents would choose cash reserves onshore or offshore to fund their business. Cash reserves both onshore (52%) and offshore (51%) are preferable than domestic loans in China. *"Our company will fund the China business with cash reserves from overseas operations. We have accumulated a lot of money outside China over the past several years, which can meet the needs of our business. We will also use overseas loans with domestic guarantees or choose other ways to raise money outside China, which is also a way to reserve money overseas. Of course, we wouldn't operate financing in China, our financing is completed overseas,"* says an overseas MNC's treasury manager in Singapore.

Another overseas MNC's treasurer also mentions that their business in China has been very self-sufficient and they are able to recycle the cash in the business. *"China is still a very closed market given the currency restrictions. We have been very self-sufficient in China. Our operation in China has been profitable so we have been able to recycle the cash and keep us self-sufficient,"* says the treasurer.

FIGURE 15. **Choices of funding channels for corporates' China business - China corporates vs Overseas MNCs**



# Belt and Road initiative progress

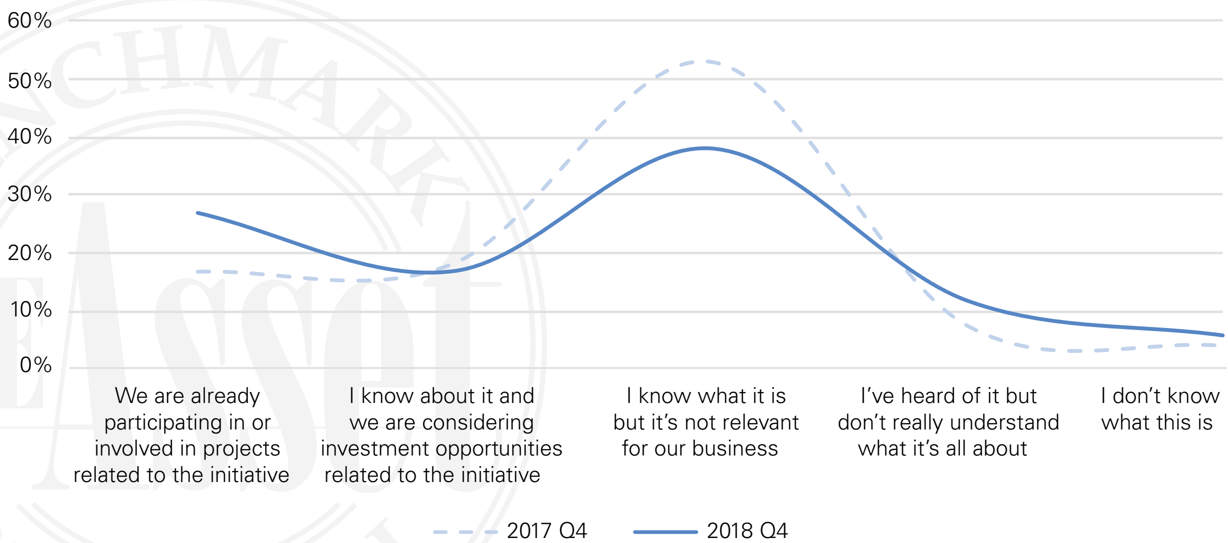
*China's Belt and Road Initiative (BRI), which was launched by Chinese President Xi Jinping in 2013, now extends to at least 72 countries collectively accounting for over 60% of global GDP and more than 70% of the world population. Indeed, the scope of the BRI is still evolving with some commentators suggesting that it will eventually be open to all countries. The Belt is conceived of as new road and rail routes, energy pipelines and infrastructure running along the ancient Silk Road that connected China with Europe via Central Asia and Russia. The Road is envisioned as a network of sea routes that will stretch from Chinese coastal ports to Europe via new and upgraded ports in the South China Sea, the Indian Ocean, the Middle East and the Mediterranean.*

*As the BRI gathers momentum with road, rail-links, bridges, ports, power stations and other projects underway in countries as diverse as Kenya (eg Mombasa to Nairobi Railway), Pakistan (eg Karot hydropower station) and Iran (eg Tehran - Mashhad High-speed Rail), the scheme has also provoked some criticism. The main concern is that the initiative will leave countries with unmanageable debt overhangs and be beholden to China as a creditor. Public displays of apprehension have been seen in several countries and some leaders have taken stands against projects. For example, in August last year, newly elected Prime Minister Mahathir Mohamad of Malaysia cancelled two China-financed mega projects in the country: the US$20 billion East Coast Rail Link and two gas pipeline projects worth US$2.3 billion, saying his country could not afford them.*

**Level of awareness of BRI**

The majority (82%) of companies surveyed are aware of the BRI, which is similar to the 88% recorded in the previous review conducted in Q4 2017. However, there was a large increase in the proportion of companies that are already involved in BRI projects with more than one-quarter of companies surveyed (27%) in this category compared to 17% previously. A further 17% (18% in 2017) are actively considering BRI projects. Likewise, fewer (38%) companies say that the BRI is not relevant for their business compared to 53% previously. Almost half (49%) of Western MNCs are in this category compared with 35% of Asian corporates.

FIGURE 16. **Level of awareness of Belt and Road**



There is a distinct difference between companies based on their domicile: Asian corporates (51%) are more actively participating or considering investment in BRI projects compared to Western MNCs (17%). *"We definitely want to participate in the BRI projects, but we usually subcontract the projects from the general contractors. Therefore, the impact of the BRI projects is more significant on the general contractors than on our company,"* says a Chinese treasurer in a material production company.

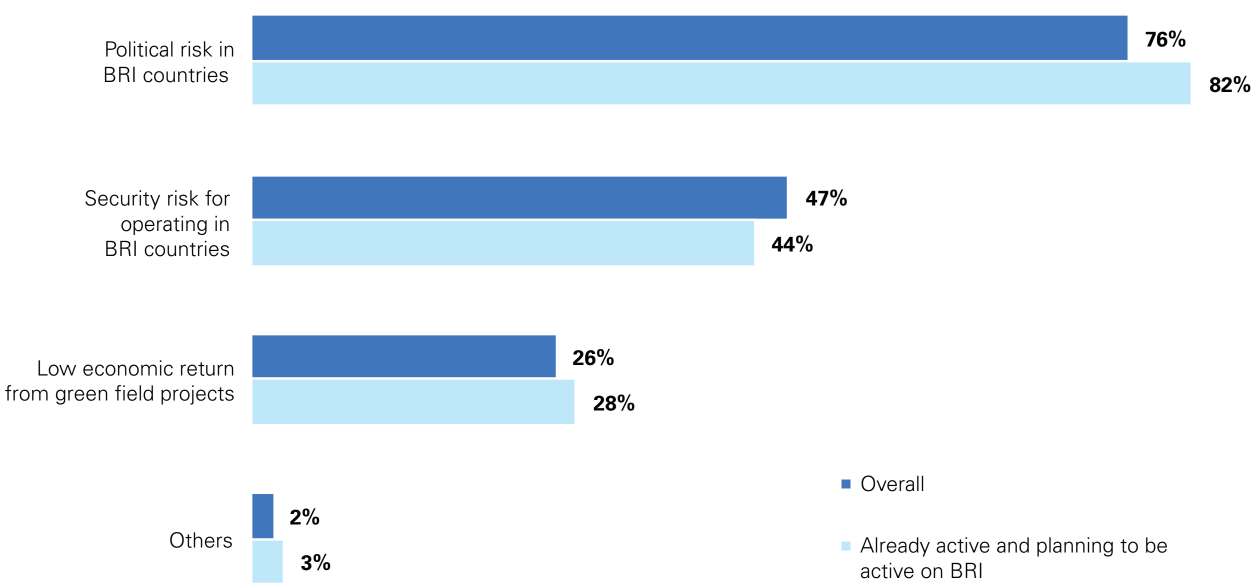
***Views from China corporates versus overseas MNCs***

**Dominant risks and opportunities in BRI**

Considering the mixed experience of BRI projects, respondents are asked to define the risks and opportunities they perceive. The overriding concern for four out of five (82%) respondents active or considering investment in BRI schemes is the political risk in BRI countries. *"The political risks are quite common in these developing countries. For example, the new president doesn't support the policies issued by the former president. During the process of bidding activity, the government will change some conditions that they have set up before. Therefore, when we consider participating in some projects, we will first consider the political risks,"* reports the treasurer from a company from Hong Kong. And while several company representatives from China shared similarly acute concerns about the political risk, one was more sanguine: *"We have not met any particular political risk during the participation. But I think there exist some political risks. To be honest, investing in the BRI countries is not our company's choice, but the order from the local government. As long as the government can appropriately manage the risk, I think it will be fine."*

The second related concern for 44% of active or prospective BRI companies is the perceived security risk, while just over a quarter (28%) of companies are worried about the low economic return from green field projects.

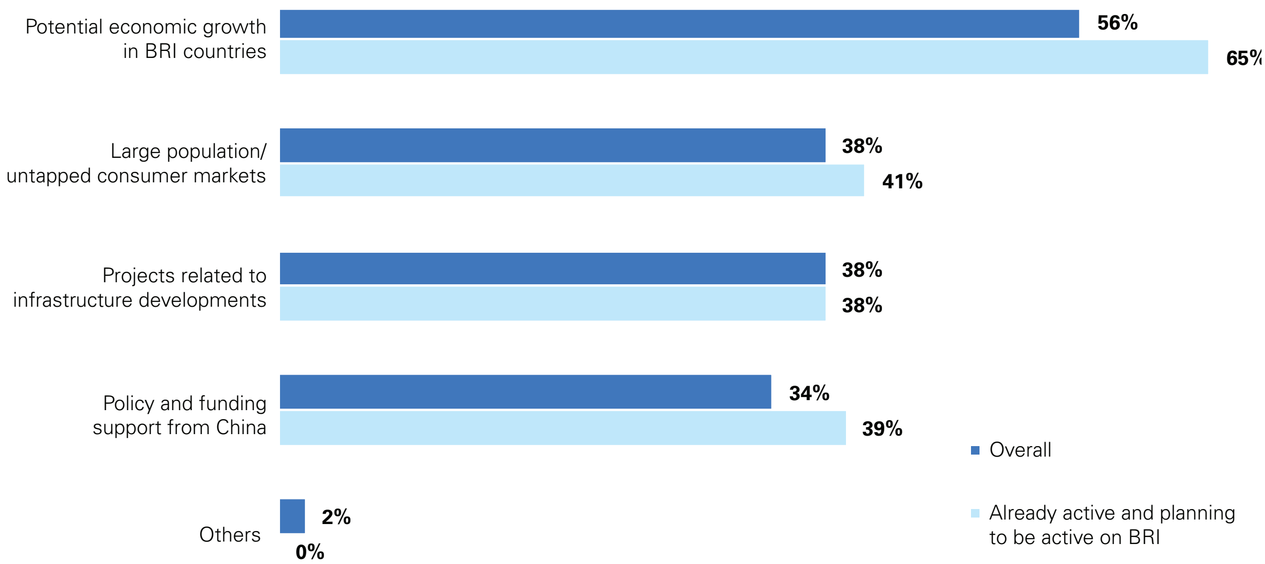
FIGURE 17. **Biggest risks of being involved in BRI projects**




***Views from China corporates versus overseas MNCs***

82% of Asian corporates cite political risk in BRI countries as the biggest risk compared with 56% for Western MNCs. On the other end of the spectrum, the opportunities BRI projects offer to participating corporates are the potential economic growth in BRI countries (65%), the large population/untapped consumer markets (41%), policy and funding support from China (39%) and projects related to infrastructure developments (38%).

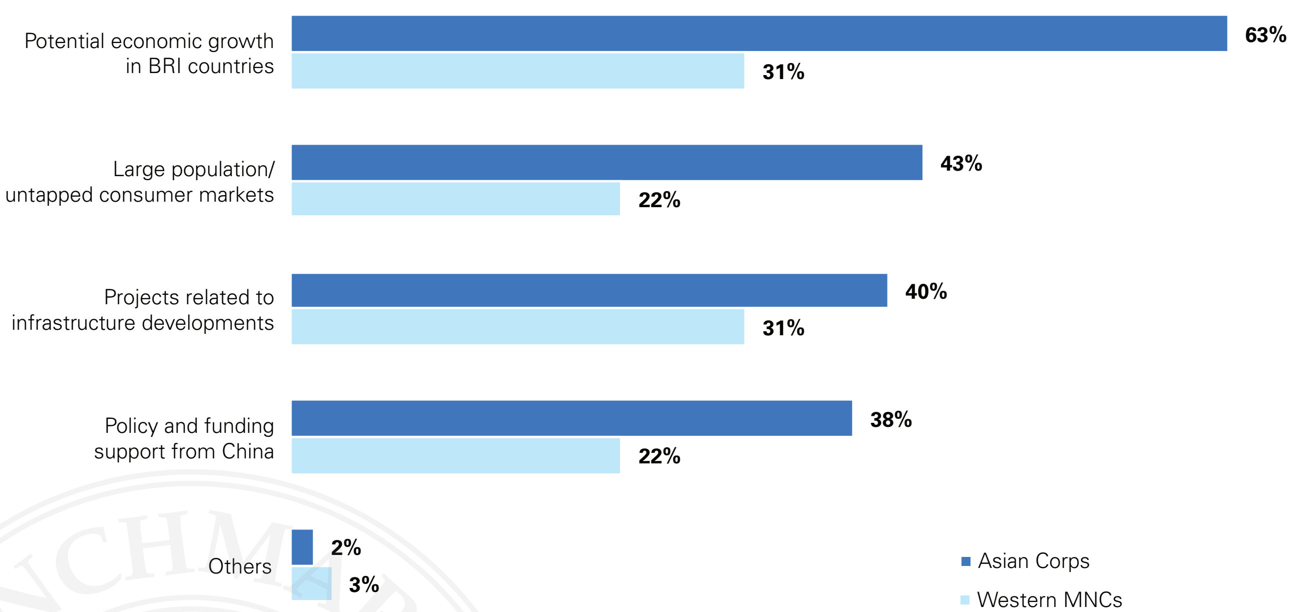
FIGURE 18. **Biggest opportunities of BRI**




***Views from China corporates versus overseas MNCs***

Again, there is a difference in the way the benefits of BRI projects are viewed depending on the location of the respondent. Almost two-thirds (63%) of Asian corporates cite the potential economic growth in BRI countries as the main opportunity compared to 31% of Western MNCs, which also equally identified infrastructure projects/ developments as the foremost opportunities from BRI.

FIGURE 19. **Biggest opportunities of the BRI - Asian corporates vs Western MNCs**



# Continued rebound in offshore renminbi usage

**Planned use of offshore renminbi products**

*Compared to Q42017, the resurgence of offshore RMB usage continues in this round. The three most popular products among active respondents are cross-border trade settlement, FX transaction, and offshore renminbi deposits. The less popular products among survey respondents by a small margin are cross-border cash pooling, cross-currency swap structures and offshore renminbi loans. Foreign currency and capital controls are cited as the main obstacles for increasing usage of RMB products. Compared to the last round, more corporate treasurers choose not to hedge their RMB exposure.*

Corporates are asked how they expect their use of offshore renminbi products to change in the forthcoming six months. Among the six products reviewed, the largest proportion of respondents (33%) said they will increase their cross-border trade settlement in RMB. When combined with respondents whose activity has not changed, almost two-thirds of respondents (65%) are expected to remain active in cross-border trade settlement in the coming six months. As a further indication of the increased focus, only 29% of respondents are either not involved or will decrease cross-border trade settlement in RMB (compared to 34% in Q4 2017). A similar pattern is also found for offshore RMB FX transactions where over half (57%) of the respondents will increase or maintain their offshore RMB usage (compared to 50% in the last survey). Only 36% of respondents are not involved or will decrease RMB FX transactions (compared to 39% in the last survey).

Offshore RMB loans are the least-used products among the six. Nearly half of the respondents reply that they will decrease their exposure or are not involved in this product.

FIGURE 20. **Expectation of offshore RMB product usage in the next six months**

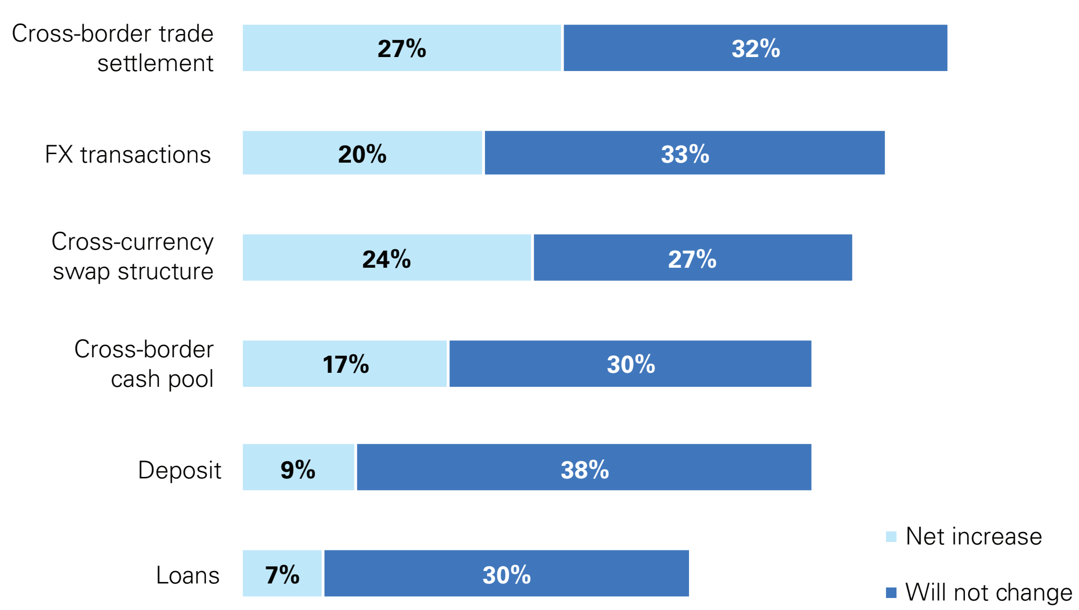
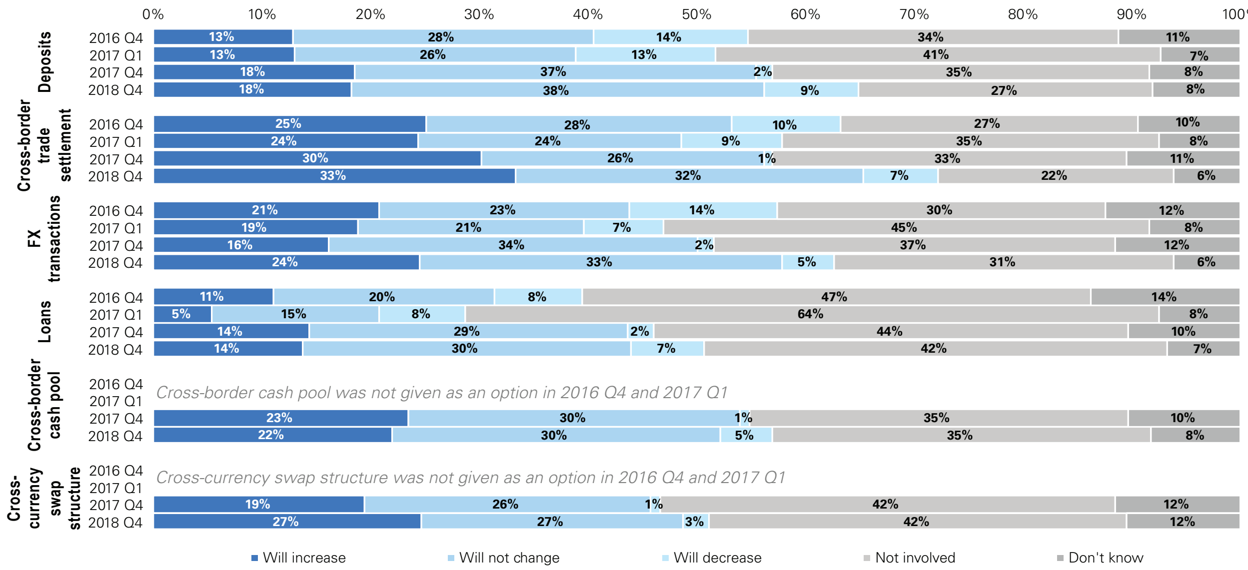


FIGURE 21. **Expectation of offshore RMB product usage in the next six months - 2016 - 2018**

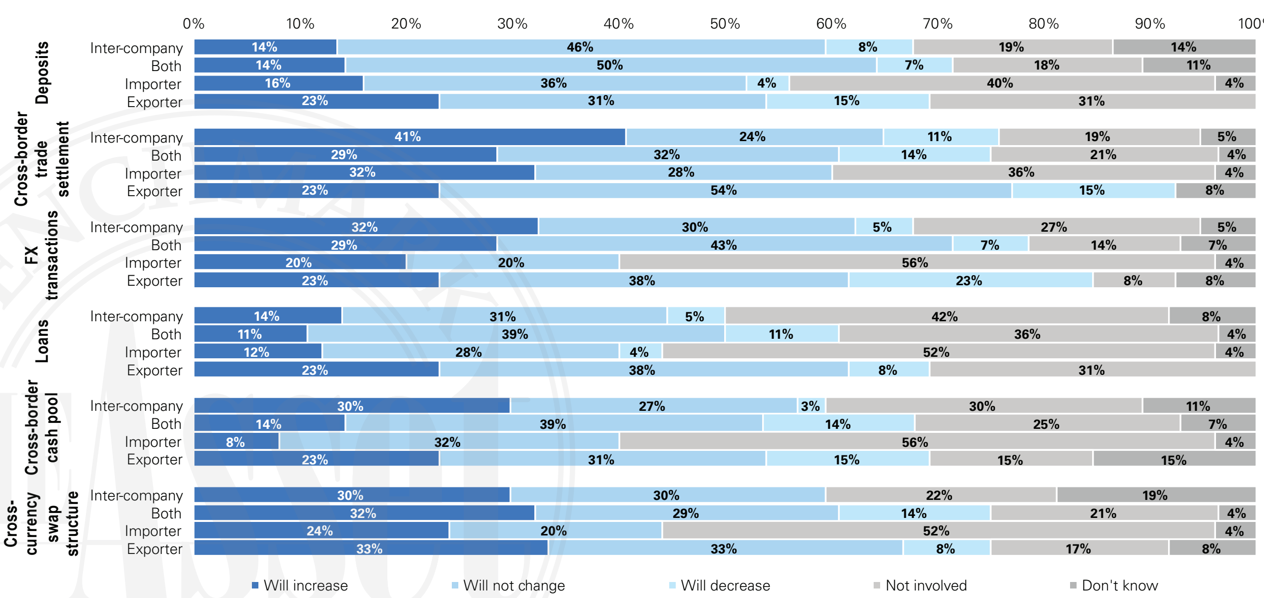



## Inter-company activity buoyant

Interestingly, companies whose business is mostly buying and/or selling to their China subsidiaries are the most positive about increasing cross-border trade settlement (41%) and FX (32%). At the other extreme, companies that import goods and/or services from mainland China companies have the lowest level of usage. More than half the importers (56%) neither use cross-border cash pools nor FX transactions while similarly large proportions (52%) do not have offshore RMB loans or use cross-currency swaps.

In contrast, cross-currency swaps to obtain cheaper funding appear to be more popular this year with 27% of respondents overall expecting to increase their usage in the next six months (19% in Q42017). Companies exporting to China show the highest proportion (33%) likely to extend their usage, followed by those who both import and export (32%).

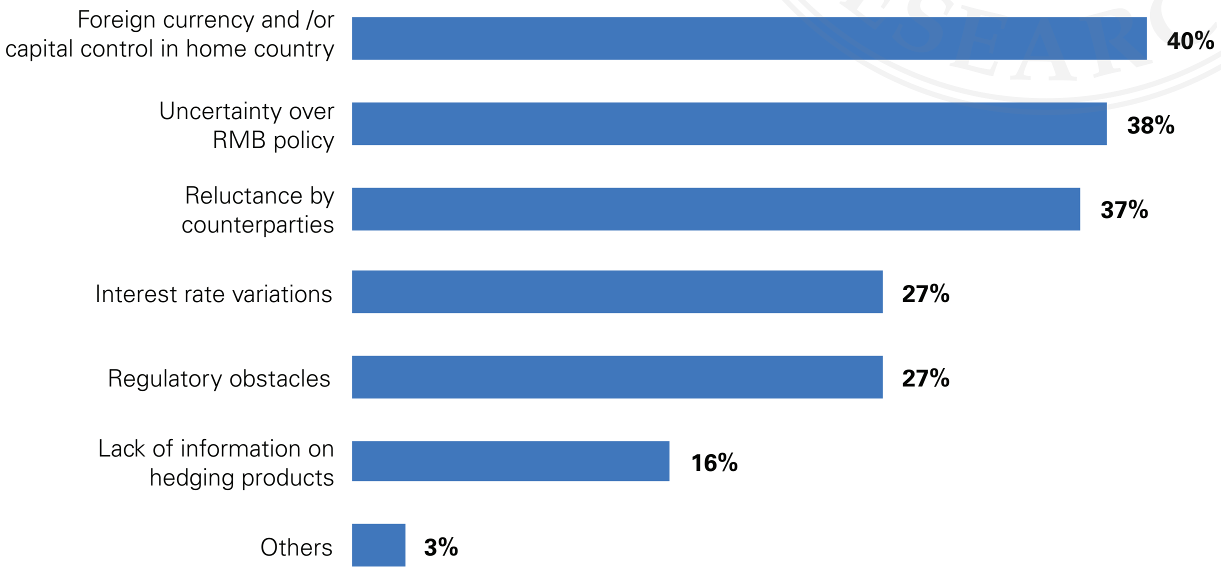
FIGURE 22. **Expectation of offshore RMB product usage in the next six months by their business interactions with China**



**Obstacles to adopting or increasing offshore RMB usage**

Among all respondents, foreign currency and/or capital controls are cited as the main obstacles to adopting or increasing the use of RMB products. *"In order to further develop our business, we hope that China can be more flexible on capital controls. Therefore, we can promote the mutual connection between our business in Hong Kong and our parent company in mainland China. And also enhance the connection between the two cash pools both in Hong Kong and mainland China through some channels,"* explains the treasurer of a company in Hong Kong. A respondent from MENA remarks: *"If we pay more than US$50,000 overseas, the government will ask us to go to the tax bureau for registration. This will increase the risk to the company."*

FIGURE 23. **Obstacles of adopting or increasing offshore RMB usage**

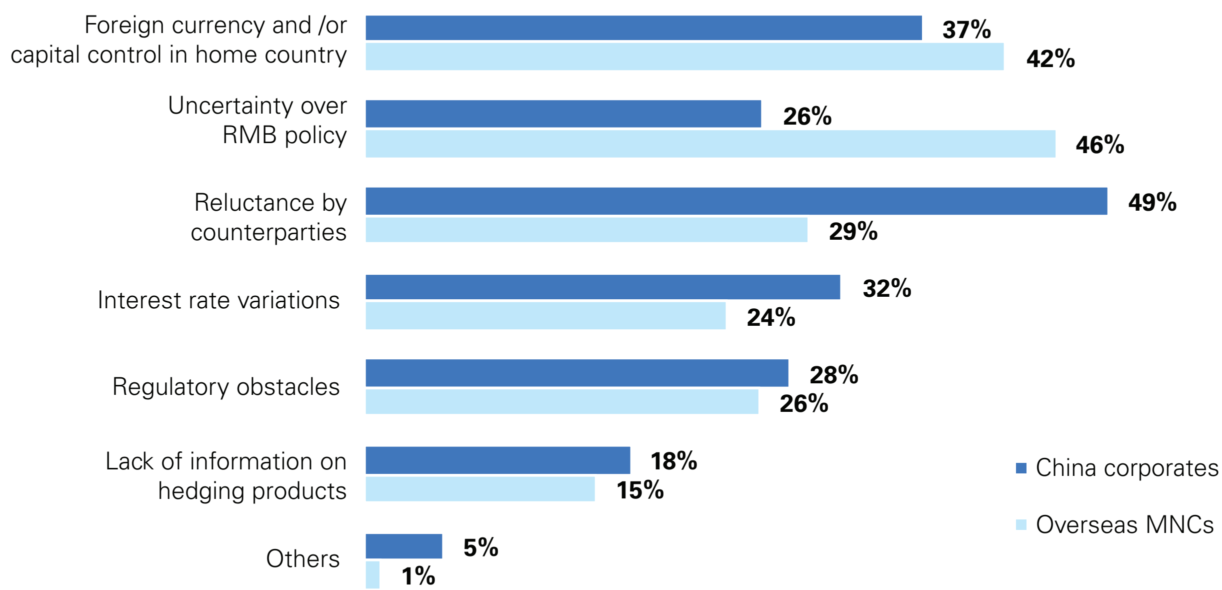



***Views from China corporates versus overseas MNCs***

The overriding obstacle China companies face in the use of RMB products is the reluctance of counterparties (49%) to participate. This is far less pronounced among overseas MNCs (29%), whose dominant concern is uncertainty over RMB policy (46% of respondents).

A respondent with a company in China explains: *"My counterparties are more willing to trade in US$. The internationalization of RMB is limited. The state-owned enterprises and private-owned companies are both unwilling to use RMB. It is hard to say which kind of enterprises are more reluctant to use the RMB."* A company executive in Singapore offers a similar explanation: *"If it is a Chinese company, it is not a problem for them to settle trade in RMB. However, I don't see them seeking to accept payment in RMB. For example, we have few cheap suppliers agreeing to import in RMB."*

FIGURE 24. **Obstacles of adopting or increasing offshore RMB usage - China corporates vs Overseas MNCs**




**Hesitation towards hedging RMB exposure**

When asked whether they hedge their RMB exposures, the majority (65%) of the 142 respondents who answered the question say they did not, compared to 51% in the last survey. The proportion is higher (70%) among China corporates than overseas corporates/offshore MNCs (60%). Yet, compared to last year, both China corporates and offshore MNCs have a high proportion of respondents not hedging the RMB risks.

When asked why they do not hedge their RMB exposure, the treasury official for a MENA company said: *"The amount of RMB we use overseas is relatively insignificant, so the risks can be ignored."* However, he went on to say, "*based on the current trend of the RMB fluctuation, we should strengthen [our] foreign exchange management*".

Most commonly, respondents appear to use a natural hedge for their exposure to the Chinese currency. *"We are thinking of establishing an entity in China in the future. We are looking at how to develop the business in China. We are looking at how we can start paying in the currency of the supplier. This would help us to hedge our FX trades,"* one respondent explains. *"In the past, it has depended on what the suppliers want. But in the future, if we can use the suppliers' currency, it could reduce our FX risk and reduce the costs of our supplies. Some of our suppliers are already using RMB with other overseas customers."*

A China respondent provides a different view: *"As a domestic company, we barely have to exchange RMB for US dollars with foreign companies. So, we don't consider having to manage the RMB risk. We also have a trading company, if they want to trade in US dollars, they will use letters of credit."*

# Conclusion

The macroeconomic environment that CFOs and treasurers are facing in China has its challenges and time will tell how quickly the government's efforts to tackle the country's slowing economy and resolve the trade conflict will yield results.

Asset Benchmark Research's 2018 China Business Outlook has shed light on CFOs and treasurers' outlook for the China economy, especially their adaptation to the renminbi's recent depreciation against the US dollar. It also elucidates their preferred strategies and actions in dealing with the current credit crunch and their planned activity in offshore renminbi products. Providing details on the risks and rewards of participating in BRI projects, it also suggests how the global BRI programme will develop in the future.

**About Asset Benchmark Research**

Asset Benchmark Research conducts in-depth, product-specific surveys on Asia's financial markets. Part of the group that publishes The Asset magazine, the research team specialises in accessing senior corporate decision-makers and institutional investors to provide accurate quantitative and qualitative data to assist in management decisions.

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This material has been prepared by Asset Benchmark Research and sponsored by Standard Chartered Bank.