

A FOREIGNER'S GUIDE TO BANKING IN CHINA

FROM BUSINESS SET UP
TO HEDGING RISKS



**START
A BUSINESS**



**OPEN
ACCOUNTS**



**CONDUCT
PAYMENTS**



**HEDGE
RISKS**

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Guide's introduction

Navigating the banking landscape in China can be challenging for foreign corporations, especially when compared to the more familiar systems in Hong Kong and Singapore. Chinese banks operate under a distinct framework shaped by the country's economic structure and regulatory environment. Unlike many Western nations, where customer relationships and competition drive banking practices, Chinese banks are heavily influenced by **government policies** and **state-owned institutions**. This unique dynamic significantly affects lending practices and access to capital, making it essential for corporations to align their financial strategies with national priorities.

This article provides a step-by-step guide for corporations to banking in mainland China.



Step 1 - Starting a Business in China: Registering Your Company

The first step in establishing a business in China is registering your company. Foreign companies can choose from three main types of foreign-invested enterprises (FIE):

1. **Wholly Foreign-Owned Enterprise (WFOE):** A limited liability company entirely owned by foreign investors, WFOEs have gained popularity since China joined the World Trade Organization (WTO) in 2001. There are three main types:
 - a. **Manufacturing WFOE:** For companies looking to set up manufacturing operations; permitted to trade and provide consulting services.
 - b. **Service/Consulting WFOE:** Limited to providing consulting services within specific industries.
 - c. **Trading WFOE (or Foreign-Invested Commercial Entity, FICE):** Permitted to engage in trading, wholesale, retail, or franchising. This type can apply for a customs license, facilitating independent import-export activities.
2. **Representative Office (RO):** Serves as an extension of a foreign company, ideal for maintaining supplier relationships and quality control. ROs cannot engage in trading activities and are subject to taxes on expenses; they are primarily for marketing purposes.
3. **Joint Venture (JV):** A business agreement between a foreign investor and at least one Chinese company, typically lasting 30-50 years, often used for advanced technology transfer.

Step 2 - Opening Your Bank Account: Types of Corporate Accounts

Once your company is registered, the next step is to open a bank account. This process can be complex, requiring knowledge of local documentation and procedural requirements.

1. RMB accounts

For Renminbi (RMB) accounts, there are two primary types:

- **Basic Account:** Required to open before any other accounts, it allows for cash withdrawals and salary payments. Each company can only have one Basic account.
- **General Account:** Can be opened after the Basic account and allows for multiple accounts at different banks.

2. Foreign Currency Accounts

There are two primary types:

- **Foreign Currency Capital:** Is strictly for receiving capital injections. Regulatory approval from the State Administration of Foreign Exchange (SAFE) is required for capital accounts.
- **Settlement Accounts:** For regular business operations like receiving payments and paying suppliers.

Step 3 - Conducting Payment Transactions: Cross-Border Flows

Once the bank account is established, payment transactions can begin. It's crucial to understand the regulations governing cross-border flows into and out of Mainland China, overseen by SAFE.



Trade vs. Capital Flows

- **Trade Flows:** Generally less restricted. Documentation supporting the trade is required. If criteria can be fulfilled, then there is no issue. However, if no evidence of real trade background, then cross border transfer is not possible.
- **Capital Flows:** Highly regulated, often requiring extensive documentation and can take significant time for approval. Assuming a straightforward process the time it takes to complete all the steps for paying a dividend is approximately 2 months but can be up to 1 year. In addition, a dividend payout should be conducted locally e.g. a client in Shenzhen pays dividend via its bank account in Shenzhen, follows local SAFE practice.

Did you know:

- There is no need to provide supporting documents for payments from CNH account based in Hong Kong (or Singapore) as it is regarded as offshore. In business practice Hong Kong is outside of mainland China and under a different regulatory system. For Hong Kong the same process applies as for a cross border transfers to for instance any EU country.
- Cash pooling: There is strict regulation around cross-border cash pooling. There are exceptions for corporation classified as a multi-national company (MNC) which is only applicable to (very) large names. In addition, only selected (large international and domestic) banks have capability to provide cash pool facilities.

Step 4 - Borrowing: Understanding Loan Options

Depending on business needs, corporations may require various types of loans:

- **Types of Loans:** There are loans for capital expenditures (capex) and working capital. Shareholder's loan can be refinanced via a bank loan with the same purpose (e.g. working capital)
- **Regulatory Requirements:** Loans for working capital must be directed to suppliers and justified based on business needs. Caps on foreign debts are applicable but there are also solutions which can be investigated case by case.

Interest Rates and Collateral

- Interest rates for capex loans can extend up to six months, while working capital loans typically follow a shorter (eg. weekly) rollover.
- Local collateral, such as real estate or receivables, can enhance loan agreements.

Did you know:

- Banks are allowed to charge credit related fees to medium or large sized companies but are not allowed to charge for mini/small sized companies. The definition of mini/small/medium depends on the type of industry, number of staff and turnover but are somewhat different compared to European standards. For example, an industrial company with less than CNY20mln turnover and 300 staff is still considered small.
- The interest rate markets for onshore RMB (=CNY) and offshore RMB (=CNH) are very different markets, and the connection between the 2 are relatively weak. For onshore CNY, the IR market is tightly controlled by People Bank of China (PBOC). The short end is anchored by the 7-day repo rate. On the other hand, the offshore CNH IR market is much smaller in size and depth in trading volume compared to its onshore CNY counterpart. The short end is anchored by the daily depo rate banks can get from the idle balance with their clearing agent, Bank of China (Hong Kong) (BOCHK).
- Legally binding credit documentation is in Mandarin and according to local law. A copy in English can typically be provided but the Chinese version prevails an English version. It can only be used as a reference.

Step 5 - Hedging Local Risks: Managing Foreign Exchange and Trade Risks



Foreign Exchange Rate Risk

- Managing foreign exchange (FX) risk in China is a critical priority for corporations, especially given the country's capital controls and regulatory oversight. Companies often use tools such as forward contracts, currency swaps, and natural hedging strategies to mitigate exposure to RMB volatility.
- When doing foreign exchange transactions, the time of the day is key factor for best liquidity. For USD/RMB and EUR/RMB value Spot FX, this is during 10:00 am – 4:00 pm Shanghai time.

Did you know:

Corporations with an entity (most likely its holding company) in Hong Kong, is able to access both on-shore and off-shore RMB liquidity.

- Onshore RMB (CNY) has each day a fixing at 9.15 am whereby movement is capped. PBOC would intervene if necessary.
- Offshore RMB (CNH) was created 15 years ago without capital controls. Offshore means no control, hence theoretically it can move 3-4% intra-day.

Trade Risks

Banks in China offer a robust suite of trade finance products, including letters of credit (L/Cs), documentary collections, bank guarantees, export credit insurance, and supply chain finance solutions. These services are designed to support both domestic and cross-border trade, often with a strong emphasis on RMB-denominated transactions and compliance with SAFE (State Administration of Foreign Exchange) regulations.



Conclusion

Understanding the intricacies of banking in China is essential for foreign corporations seeking to operate effectively in the region. The regulatory landscape, capital controls, and relationship-driven banking culture differ significantly from Western norms. Navigating these complexities is key to managing liquidity, securing financing, and building strategic partnerships with local financial institutions.

KBC Shanghai – Banking Services Overview

- **Account Opening & Regulatory Support**

KBC Shanghai is well-positioned to assist clients with navigating the regulatory requirements for opening and operating RMB and foreign currency accounts. However, it is important to note that RMB Basic Accounts must be opened directly with a local Chinese bank. Account opening at KBC Shanghai is available exclusively to existing commercial banking clients of KBC in its home markets: Belgium, Czech Republic, Slovak Republic, Hungary, and Bulgaria.
- **Know Your Customer (KYC) Process**

Successful completion of KYC is mandatory for account opening. While KBC Shanghai will leverage existing client data from KBC systems where possible, additional documentation will always be required to comply with local regulations. If the client does not visit the Shanghai Branch in person, the involvement of the relationship manager in the home market is necessary.
- **Digital Banking Platform**

KBC Shanghai offers KBC Reach as its e-banking solution. Please note that the multi-bank e-banking platform Isabel is not supported in China.
- **Credit Facilities**

KBC Shanghai provides financing for capital expenditures (capex) and working capital needs. Additionally, shareholder loans may be refinanced through bank loans, provided the purpose remains consistent (e.g. working capital).
- **Corporate Guarantees**

A key differentiator from local banks is KBC's experience in working with corporate guarantees, subject to the existence of a shareholder relationship or confirmation of economic dependency between the borrower and the guarantor.
- **Foreign Exchange Services**

KBC Shanghai offers competitive FX rates compared to local banks, supporting efficient currency management for international operations.
- **Trade Finance Solutions**

KBC provides a comprehensive suite of trade finance products, including Trust Receipt financing, issuance and collection of documentary credits, and bank guarantees, ensuring full support for clients engaged in international trade.

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