



# Internationally Speaking™

First Quarter 2015



## Keep an eye on the emerging renminbi (RMB)

Is the renminbi ready to become a global currency, taking its place alongside the dollar and the euro? China's government is pushing for a larger role for the currency (also called the yuan), a change that could have implications for U.S. firms doing business in China. The yuan is the base unit of Chinese currencies, with renminbi being the primary unit of account. However, the two terms are often used interchangeably.

The United States dollar has been the world's most dominant reserve currency since the end of the 20th century. A reserve currency is a currency held in significant quantities by governments and institutions to pay off international debt obligations or influence their domestic exchange rate. The longtime dominance of the dollar allowed the U.S. to borrow at lower costs.

### Rise of the renminbi

China is gaining in international market appeal. According to SWIFT\* data, compared to April 2013, the renminbi is now being used by a total of 50 countries for more than 10% of their payments value with China and Hong Kong. This event has been called "crossing the RMB River," a threshold that SWIFT set to measure the weight of RMB payments value with Hong Kong and China compared to other currencies. SWIFT also recently reported that, as of November 2014, the renminbi has surpassed the Canadian dollar as the fifth most used currency in the world.

Additionally, China is seeking to increase the use of the RMB in global trade and investment in order to diminish China's dependence on the US dollar. Since 2009, the Chinese central bank has increasingly encouraged settlement of cross-border transactions in renminbi, and central banks in countries such as South Korea, Nigeria, Chile and even Japan (despite strained relations with China) already hold the renminbi in their reserves.

### Benefits for U.S. companies

The renminbi is gaining more acceptance with U.S. firms doing business in China because it is becoming more cost-efficient to do so. American importers can often negotiate better prices with Chinese suppliers if they agree to use the renminbi to make a purchase. When dollars are used to settle trades, Chinese companies tend to raise prices to offset their additional costs due to possible exchange-rate fluctuations.

### What's next for the Renminbi?

In 2015, the International Monetary Fund will conduct its twice-a-decade review of currencies that can be used as official reserves. But while support for renminbi's use as a reserve currency grows, it will not gain traction as long as the Chinese government maintains tight control over its currency.

China has taken steps toward freeing the exchange rate from government control by permitting banks to set their own exchange rate for RMB against the US dollar in over-the-counter transactions. Banks were previously required to price the exchange rate within 3% in either direction of the Chinese Central Bank's midpoint on a given day.

China's current account and financial account balances have both been maintained at a surplus on a long-term basis and can efficiently support the uptrend in the RMB under China's considerable foreign reserves. The liberalization implies that the central bank believes that the RMB has reached equilibrium. Allowing the market to price the RMB against the US dollar is a prerequisite for wider liberalization – without Beijing's interventions in the currency market. Any intervention only implies that the market is not in charge.

*For more information, please contact MB's International Banking Division's Foreign Exchange Services.*

\*SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,500 banking organizations, securities institutions and corporate customers in 215 countries and territories.

## The Chinese economy: where it has been, where it is heading

A huge economy such as China's offers great opportunities for businesses, but as an emerging market, it is still experiencing growing pains.

Some of the advantages to doing business in China include access to a major emerging market, a large labor force, growing consumer wealth and low employment costs. As the largest global producer of many products, including toys, textiles, appliances and electronics, China is a desirable trade market, and in recent years, the Chinese government has made policy changes designed to make the Chinese market more favorable.

In November 2013, Chinese President Xi Jinping introduced an ambitious agenda designed to re-shape the Chinese economy. The state's involvement in capital distribution would be reduced, and state-owned enterprises would be restructured to allow more competition and attract foreign and private sector industries. This also included efforts to increase the number of Chinese who occupy the middle class and move millions of rural workers to cities, a move that could possibly benefit U.S. businesses as this emerging middle class could be a fertile customer base for companies looking to get into the Chinese market.

Additionally, China established the Shanghai Pilot Free Trade Zone (SFTZ) in September 2013. The zone, which covers 29 square kilometers, experiments with relaxed controls on foreign investment, streamlined administrative procedures, financial and foreign exchange reforms, and increased market access in industry sections not on a "negative list" (a list of restrictions and prohibitions on foreign investments). However, so far, only 12% of firms operating in the SFTZ were newly registered foreign companies. Still, three recent developments in this area have been encouraging.

In September 2014, Chinese Premier Li Keqiang conducted an inspection tour of the SFTZ and urged government officials to push through new policies to make the zone more welcoming to foreign firms. Additionally, the Chinese banking sector announced in November 2014 that deposit insurance would be initiated. This is good news as it could be the beginning of deposit interest rates freeing up, allowing Chinese banks to operate under supply and demand conditions. It will also reduce risks of small banks having a liquidity crisis and will increase their credibility.

Finally, China announced an interest rate cut in November 2014. The hope is that this move will provide a boost to the country's flagging housing market and large state-owned companies, while also bolstering foreign businesses that rely on those sections of the Chinese economy.



### China in 2015

Companies looking to do business in China should also take note of the recent slowdown in the Chinese economy. Growth slowed to 7.4% in 2014, and economists expect the slowdown to continue in 2015, as China's government tries to move the economy toward services and consumption.

Additionally, the political situation in China could bring as yet unknown changes in 2015. The China Editor for *The Economist* stated in a recent podcast that the Communist Party of the China Central Committee held a meeting discussing the constitution in late 2014, signaling that there may be political changes ahead. President Xi may also be distracted by a corruption case involving a senior Chinese official.

U.S. companies could still benefit from the China slowdown, as a recent report by the Conference Board noted that foreign companies could benefit from a larger talent pool, and foreign investors could receive more favorable treatment from the Chinese government.

### Considering China?

The checklist *Are You China Ready* details what you should consider when deciding on entering the Chinese trade market. <http://export.gov/areuchinaready/> Also, the U.S. Trade Compliance Center can help you understand and get the maximum benefit from trade agreements. <http://tcc.export.gov/> The Stop Fakes website offers information on how to protect intellectual property rights: <http://www.stopfakes.gov/>

## Beyond the Headlines: Finding opportunities in China

For decades Midwestern companies looked toward China as either a new or growth market for their products. But with headlines warning of slower growth, many are asking whether the Asian powerhouse still belongs in their business plan. The answer – for certain sectors, at least – is yes.

As one of the top three destination countries for Illinois exporters, with \$5.6 billion in sales\* in 2013, China continues to offer opportunity – and a few challenges. Though the country’s growth rate is slowing in 2015, it will likely remain near 7%. In some sectors there is still a good match between Illinois products and the Chinese market.

For exporters of agricultural machinery products, Chinese government subsidies will help support demand. Orders for government infrastructure and large commercial projects – including the Silk Road Economic Belt – will also offer opportunities for machinery and transportation equipment manufacturers. And Midwestern food companies can continue to meet the country’s growing taste for their products and the Chinese reliance on their quality and safety.

### Help for Illinois companies

No state in the country has a longer history of supporting its manufacturers in developing trade with China. In 1974, Illinois was the first state to open a trade office in Hong Kong, and a second office opened in Shanghai in 2000.

Most companies new to the Chinese market find setting up shop locally isn’t a cost-effective option – at least in the beginning. That means leveraging resources domestically and in China.

One such resource is the United States Commercial Service, the trade promotion arm of the U.S. Department

### Top 5 Industries for Illinois Exports to China\*

- Agriculture and Related Products
- Transportation Equipment
- Machinery (except electrical)
- Waste and Scrap
- Computer and Electronic Products

of Commerce’s International Trade Administration. Their Gold Key Matching Service can help U.S. manufacturers to find overseas agents, distributors, sales representatives and business partners. The cost for these services depends on the size of your company.

For both exporters and importers, managing the risk of payments is important. In a previous edition of *Internationally Speaking*, we covered the importance of understanding Incoterms – the universal trade agreements used to identify the accountability of the buyer and seller – and the role of Letters of Credit. To receive a copy of that newsletter, email [internationalbanking@mbfinancial.com](mailto:internationalbanking@mbfinancial.com).

Central to a solid 2015 business plan that includes export to China is staying current on global growth trends as they impact both the yuan and the dollar. The potential varies sector by sector, but there are opportunities for Illinois manufacturers. Leveraging the resources available through the Illinois Office of Trade and Investment and the U.S. Commercial Service can make business decision making and plan implementation both effective and efficient.

\*2013 data, State of Illinois

## Q&A with Tim Szostak, Director of International Sales, Chicago Blower Corporation

Recently we sat down with Tim Szostak of Chicago Blower Corporation to discuss his company’s experience in China.

**Q.** Tell us a little bit about Chicago Blower Corporation.

**A.** We make industrial fans and blowers used for a wide variety of industries. We’re a

*Chicago-based company, but we have licensees around the world.*

**Q.** How long has your firm been doing business in China?

**A.** We’ve been doing business there for about three years. But it wasn’t something that we wanted to jump into all that quickly.

*We went through a number of representatives for China, really because we wanted to make sure we kept our intellectual property within our control.*

**Q.** How did you find your licensees?

**A.** John, the man I replaced earlier this year, had done a

*tremendous job. I can’t even imagine how he was doing this back in the 70’s and 80’s prior to the Internet and all the technologies we have today. But he did it through his networking and traveling over the years. He would do a lot of researching. He didn’t actually look at the technical*

*continued on page 4*



## Q&A with Tim Szostak, Director of International Sales, Chicago Blower Corporation

*continued*

*side/what can they do for us, but whether it was someone he could truly trust. He made his determinations based on the personal relationship he had with these people first.*

**Q. What are some of the biggest challenges you've faced in China?**

**A.** *Overall, I think the biggest challenge, especially for a U.S.-based company, is that you have to realize that in China they do business differently. You can't approach the China marketplace and think you're in North America. It's just a different culture, and I think the biggest adjustment we have to make is understanding what that culture is, how they do*

*business and then really be respectful of that and act more in line with what they're used to.*

**Q. What do you like best about doing business there?**

**A.** *The relationship and partnership you build with the people you work with. I'll be traveling over there probably on an annual basis, but I communicate with them on a daily basis by email and conference calls. Building up that relationship takes time. It isn't something that's just given to you. (See sidebar)*

**Q. Has your investment in China lived up to your expectations?**

**A.** *Well, we're still in the growth phase, so we're*

*not there yet. But we're extremely pleased with what we've done so far. I think, really, the next three to five years will be the biggest growth period as we become more established and ramp up our capabilities as far as manufacturing our product there. I'll work with the licensees to see how they're marketing the product. We can offer advice on that, but it's got to be compatible with the country we're in.*

**Q. Do you think China is the premiere place to be right now?**

**A.** *I think that of the 20 licensees I have around the world, China is definitely in the top three.*

### Building Guanxi

The creation of business relationships is sometimes a source of confusion for outsiders. The Chinese refer to trust as *guanxi* (gwan-shee), and it depends on more than a series of business meetings. Much, if not most, *guanxi* develops around social occasions such as banquets and teas. Be prepared to host such events as part of your efforts to build successful business relationships.

## The Challenges of Doing Business in China

Although the Chinese economy is no longer experiencing the rampant growth of a few years ago, it remains an attractive market for local businesses. According to a recent China Business Review survey, almost three-quarters of companies doing business in China saw an increase in revenue in 2013 and most anticipated they would see another in 2014.

Still, as many have already discovered, China presents a number of challenges to foreign companies.

Even if you have experience operating in the global market, that may not prepare you for China, where business practices often differ from commonly accepted international standards.

Among the significant challenges for American firms in China is competition from Chinese firms, which is exacerbated by the preferential treatment they receive from their government. Locally-owned firms receive benefits that foreign firms are not entitled to. Further, China imposes obstacles on foreign companies that interfere with all aspects of development from bidding opportunities to opening new branches.

The level of red tape and paperwork can be a real shocker for those entering the Chinese market for the first time. Even the simple act of opening a bank account can require mountains of forms to be completed and stamped by hand. In addition, there is evidence that one of the ways the government favors local firms is by increasing the complexity of red tape for foreign enterprises.

What are your options for overcoming these challenges?

Naturally, the business savvy you've developed over the years will help you. Beyond that:

- Be sure to carefully study the complexities of the market prior to entering it
- Allocate resources for a full-time team who speak the language and are familiar with the culture
- Be scrupulous about adhering to local regulations to avoid conflict with Chinese authorities
- Document the ways your business contributes to the Chinese economy in terms of jobs created, wages paid and environmental sustainability

Tapping into the Chinese market still makes sense for many businesses, but the key, as in most worthwhile enterprises, is to take the time to do it right.

If you have any questions regarding something you've read in one of the articles or are interested in learning more about MB's international banking capabilities, please contact us. We look forward to hearing from you.



**International Banking Division**  
6111 North River Road, 6th Floor  
Rosemont, IL 60018, U.S.A.

1.847.653.1515  
SWIFT: MBFIUS44  
Member FDIC

#### International Banking Division Contacts

**Scott M. Baranski**, Senior Vice President  
Head of International Banking  
1.847.653.2855  
[sbaranski@mbfinancial.com](mailto:sbaranski@mbfinancial.com)

**Chantal Wittman**, Vice President  
International Trade Sales  
1.847.653.2630  
[chwittman@mbfinancial.com](mailto:chwittman@mbfinancial.com)

**Guillermo Villagrana**, International  
Banking Officer  
1.847.653.1955  
[gvillagrana@mbfinancial.com](mailto:gvillagrana@mbfinancial.com)

**Paul Warfield**, Vice President  
International Banking Operations Manager  
1.847.653.2201  
[pwarfield@mbfinancial.com](mailto:pwarfield@mbfinancial.com)

**Daniel Orellana**, International  
Banking Specialist  
1.847.653.4786  
[dorellana@mbfinancial.com](mailto:dorellana@mbfinancial.com)

**Laura VonFange**, Senior International  
Banking Associate  
1.847.653.1982  
[lvonfange@mbfinancial.com](mailto:lvonfange@mbfinancial.com)

**Despina Margjori**, Vice President  
Foreign Exchange Sales Manager  
1.847.653.1527  
[dmargjori@mbfinancial.com](mailto:dmargjori@mbfinancial.com)

**Richard Huttel**, Officer  
International Banking  
1.847.653.1944  
[rhuttel@mbfinancial.com](mailto:rhuttel@mbfinancial.com)

**Patricia Miller**, Officer  
International Banking  
1.847.653.2629  
[pmiller@mbfinancial.com](mailto:pmiller@mbfinancial.com)

*Disclaimer: The information contained within this report is for general information purposes only and has been obtained from sources deemed to be reliable; however, we do not guarantee its accuracy. Any reliance you place on such information is therefore, strictly at your own risk. You should make your own independent evaluation of the relevance and adequacy of the information contained in this material and make such other investigations as you deem necessary, including obtaining financial advice, before participating in any transaction in respect to any products or other material referred to in this report. The opinions contained in this report are those of the author and do not reflect the official views or opinions of MB Financial Bank, N.A., including its parent, subsidiaries, divisions and/or affiliates, nor is it intended as an offer or solicitation with respect to any product referred to in this material.*