

# SECRETS OF THE ORIENT

**CHINA IS A LAND OF OPPORTUNITY, BUT IT'S ALSO THE GREAT UNKNOWN. TREASURER ANDREAS WEINDEL SHARES HIS EXPERIENCES WITH SALLY PERCY**

Andreas Weindel is corporate treasury director at Webasto, a leading automotive supplier that has been operating in China for about 10 years. It currently has five factories (in Beijing, Shanghai, Guangzhou, Chongqing and Changchun) that produce sunroofs, and a trading company in Beijing that sells parking heaters mainly for the local market.

## **How big is your operation in China and do you employ a treasurer there?**

We have a substantial number of people working for us in China. Although we don't yet have a fully dedicated treasurer over there, we are looking for one. There is a close relationship between the financial controllers who are based in China and the central treasury team in Germany. We communicate with our finance people in China using English. The time difference can make communication challenging for day-to-day business or project-related work.

When we hire finance staff, we see some good CVs, but good people come at a price and have a very self-confident attitude. Chinese financial professionals push hard to get significant salary

increases when switching roles. I believe we are slowly reaching Western salary levels for specialised employees in treasury, at least in Shanghai, which then raises the question of whether we should hire a local person or send an expat.

Westerners may find Chinese business culture challenging. To take one example, there is strict protocol for business dinners, where the seats are rigidly controlled. As a guest, you always get 'the best piece' of whatever is being served. Out of respect, you can't decline.

## **How many banks do you use in China, and why?**

Each site used to build its own banking relationships and over the years we ended up with a very diverse banking landscape in China. So, to improve cost-effectiveness, increase transparency and centralise our liquidity, we decided to introduce a two-bank strategy, using one local and one international bank.

We opted to use HSBC for our local renminbi cash pool as our international bank in China, and we chose China Merchants Bank (CMB) as our local bank for certain types of transactions that require a so-called 'basic account'. These transactions include

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payroll and services such as document collection that require a branch nearby. Although HSBC has a lot of branches, CMB has even more, which was an important consideration since our production facilities are remote from city centres.

Control and transparency are very important considerations for us. We hold frequent conference calls with our team in China, visit regularly and we use HSBC's global e-banking platform in China. This is a web-based bank account administration and payment tool that is administrated by our treasury team in Germany.

## **What cash management challenges do you face in China?**

As a tier one supplier in the automotive industry, one of the greatest challenges we face in China is the trend

towards longer payment terms and the related use of bank acceptance notes. There are two options to avoid a working capital/cash problem. Either you go to your bank and discount the notes and accept high discounts or you try to pay your suppliers the same way.

Other challenges are securing the liquidity that we have in China, for example, finding secure investments until we are able to pay dividends, which can only be done once a year. We looked at different options, such as money market funds, which were an interesting alternative from a tax perspective, or entrusted loans to other corporates where the yield is usually higher.

Ultimately, we decided to follow a conservative approach, using normal 'call' deposits because pricing is regulated by the People's Bank of China and it is a flexible product. In comparison with normal-term deposits, the cash remains in the current account and can still be used without the administrative burden of having to terminate the deposit period. There is just a recalculation of the interest earned that is adjusted according to the amount



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of time the cash was in the account.

Since the automotive industry in China is booming, we are able to pay dividends once a year to our headquarters in Germany. It's important to be patient and plan in advance, as it can sometimes take a couple of months to get the necessary approval from the various authorities. Our experience is that the time it takes to get approval can vary a lot from province to province or even from city to city. Our local finance people in China control the process and have been successful at it so far. We have also invested heavily over the years in order to strengthen our position.



**Andreas Weindel** is corporate treasury director at Webasto. Find out more at [www.webasto.com](http://www.webasto.com)

Regulation is a particular hurdle in China, since it is a very large and diverse country. Every region is different, every city is different and rules are interpreted differently. There is often considerable variance as to what kinds of documents you need and how updated they must be. How helpful or obstructive the authorities are also varies from province to province.

#### **Is China a good place to do business?**

For the automotive industry, China is the place to be right now due to the lack of growth elsewhere in the world. China is a rapidly changing environment, which makes it both an exciting and a challenging place to do business. But with the right attitude and approach, you will be able to make working in China work for you.

#### **ANOTHER PERSPECTIVE**

Mairi Pattison is treasury manager for Scottish pump manufacturer ClydeUnion Pumps, an SPX brand. The company has several large Chinese customers as well as a wholly foreign-owned enterprise in China.

#### **Top tip for doing business in China?**

Understand the people and their culture. Be patient, tolerant and ensure you understand the customers' needs. We have found our customers increasingly favour suppliers who bid in renminbi to encourage localisation.

#### **Experience of managing cash there?**

We have had to put some thought into cash flows. Payments from China to the UK (regardless of currency) can take some time since the payment goes through the state administration of foreign exchange (SAFE) process. I understand that all payments that cross the border are under the surveillance of SAFE, even renminbi transactions.

Payment from China for 'trade items' (for example, a Chinese entity buys raw material from overseas) would generally be fairly straightforward. But payment from China that is classified 'non-trade' would typically require tax clearance for single transactions over \$30,000. This need for clearance, together with the scrutiny required by SAFE, makes the payment process quite lengthy in some cases.

Companies that are not registered as a mainland designated enterprise (MDE) cannot receive renminbi from outside mainland China. Therefore, we are unable to pay renminbi to non-MDE registered companies in

China from the UK. To become a registered MDE, the Chinese company must meet standards set by the People's Bank of China (PBOC).

SAFE and PBOC are trying to free up renminbi usage and encourage cross-border transactions in renminbi. There are apparently discussions about a new regulation that would allow renminbi transactions to a majority of companies.

#### **What about foreign exchange?**

Companies in China may only enter a foreign exchange trade to buy currency and sell renminbi to pay foreign suppliers for goods being imported to China. A customs declaration form must be shown upon importation for foreign exchange payment clearance purposes.

Renminbi in our UK bank account can be converted with no restrictions (although we haven't had to do this yet). ↩

**Mairi Pattison is treasury manager for ClydeUnion Pumps**

### TOP TIPS FOR MANAGING CASH IN CHINA

- ◆ **Be patient – it takes time, much more time than you would expect in Europe. Try to understand the culture and remember that the banking business is a people business.**
- ◆ **Make use of your network to talk to your peers in other companies and countries. It helps to share experiences.**
- ◆ **Have a two-bank strategy – a global bank partner as your international bank and a local bank with a great branch network.**
- ◆ **Make use of a web-based worldwide treasury system to include your Chinese bank accounts in your up-to-date financial status.**