



How to Bank in China: Account and Cash Considerations

Start up and mid-size companies attempting to expand into China often find the process daunting, especially if it is their first international market. Finance and treasury teams must navigate complex regulatory requirements while being mindful of the need for structures and practices that will stand the test of time.

A failure to anticipate future needs could risk forcing a company to overhaul backend processes at a later date when it should be focused on growth. To this end, when companies are establishing a treasury function in China, they must prioritize control and visibility over banking, and – crucially – develop a strategy to mitigate the risk of trapped cash given regulations in China that can make it challenging to repatriate funds that can then be utilized in other geographies.



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Maintaining control and visibility

Achieving adequate visibility and control into bank accounts in China can be difficult. The challenge is compounded for publicly-traded companies that must meet strict reporting and control requirements. Often, local employees in China will recommend working with a local bank. However, managing such a relationship can be complex and time-consuming for a US-based finance team. Moreover, local banks may not offer the capabilities and support to continue meeting the needs of a scaling business.

A balance needs to be struck between a solution that addresses local requirements and also enables a US parent company to easily monitor cash positions, generate timely reports, establish notifications, and utilize analytic dashboards. Similarly, any prospective banking provider must have robust processes in place to ring-fence entitlements as new employees are hired locally, so that they only have visibility into specific accounts.

One solution is to work with an international bank that has an in-country presence in China to ensure access to local products and services while offering uniform controls and reporting globally. Moreover, a global

bank is likely to have the capabilities to help companies develop a treasury roadmap with the input of relationship managers in China, for instance. A roadmap can anticipate the need to introduce more complex banking services, such as automation and targeting liquidity balances, which may be crucial as companies grow and need to coordinate treasury operations in several regions.

Mitigating future trapped cash

The repatriation of cash can seem irrelevant to a company that is in its early investment and establishment phase and is some way from generating significant cashflow. However, treasury – working with trusted banking partners – should seek to develop a strategy for moving funds offshore well ahead of commercialization and before cash repatriation becomes a problem. It is essential for a China-based subsidiary and head office to communicate effectively when developing a strategy, especially if the banking relationship is split between a US bank at parent level and a local bank in China. Any misunderstanding of regulatory requirements could have significant consequences in the future and make cash repatriation more difficult.

While cash repatriation from China remains complicated due to local regulations, it is significantly easier than in the past. The best way to repatriate funds is determined by several factors, but one key question is whether the flow of funds will be episodic or recurring. Companies also need to consider:

- local taxes
- pain points encountered with cash repatriations in the past
- the currency of onshore funds
- the expected end use of the funds

The two most common ways to repatriate cash from China are dividends or via a cash pooling solution. While dividends can be the more straightforward solution for recurring flows out of China, a cash pooling solution can minimize treasury costs, and link China flows to a regional or global liquidity management structure. Additionally, cash pooling is efficient and eliminates the need to provide supporting documentation for each repatriation transaction.

Choosing the right partner

When companies first establish a presence in China, overseas treasury visibility and cash repatriation may not seem a priority. But establishing a robust foundation allows companies to scale successfully so that they do not waste time or resources on what should be simple tasks, such as closing out the month. With the right partners and careful planning, it is possible for companies to construct future-proof treasury and finance operations that can act as a springboard for the company's growth.

For more information on how Citi can provide insights and Treasury solutions to streamline your expansion into China, [please contact us](#).