RMB Bank Accounts for Foreign Companies Trading with China

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On a recent trip to Europe, several clients asked me about the possibility of establishing Chinese currency ("RMB") accounts in Hong Kong and other offshore jurisdiction, to facilitate trade with Chinese customers and suppliers. Since 2009, China has gradually made it easier for foreign companies to trade in RMB, and this is offering new opportunities to foreign businesses sourcing from or distributing in China.

One of the major challenges of international companies operating in China or trading with Chinese counterparts is the restrictive framework on foreign exchange controls. Full convertibility of the RMB – defined as the ability to change RMB into other currencies for any purpose and of any amounts without restrictions – remains a distant goal, still the Chinese government in recent years has been promoting the use of the RMB in international trade, for example by encouraging Chinese exporters to invoice in RMB.

A Chinese company can invoice in RMB even if its foreign counterpart does not have direct access to RMB – payment in foreign currency can be exchanged into RMB once the funds are on the exporter's bank account, against documentation proving the transaction. By invoicing in RMB, the Chinese supplier avoids currency risk or the cost of hedging against such risk. However as payment is still made in a foreign currency, the foreign buyer will take on such risk and hedging costs. Instead of paying a USD or EUR price, it pays an RMB price in USD or EUR, creating vulnerability to an appreciation of the RMB. Most foreign buyers are reluctant to take on this additional burden, and so the practice is catching on only slowly.

Since 2009 however, a pilot project is offering a solution, especially to foreign companies that both source from and sell to Chinese counterparts. Under this scheme, foreign companies can open RMB bank accounts to trade in RMB with Chinese counterparts. The main conditions are the following:

(a) The Chinese counterpart must be established in the pilot area (now including Shanghai, Beijing, Tianjin, Chongqing, Guangdong, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangxi, Hainan, Sichuan, Yunnan, Xizang, and Xinjiang.

(b) Import goods trade and cross-border service trade is open to all Chinese counterparts registered in the pilot area, subject to recording with the local branch of the People's Bank of China (PBOC). However, Chinese companies that want to settle export goods trade (i.e. sale of goods to a foreign counterpart) in RMB must meet the conditions for and be registered as a Mainland Designated Enterprise (MDE). The requirements for an MDE are relatively high, which means that so far many companies have been reluctant to go for this step.

(c) The foreign company's RMB settlement account can be opened only in jurisdictions and with banks that have RMB clearing capability. At present, Hong Kong is one of the most popular destinations for RMB settlement accounts.

In other words, a foreign company that frequently trades with Chinese counterparts can choose to open an RMB settlement bank account at an offshore bank, use this bank account to receive RMB funds from customers, and use these funds to pay suppliers in China. At present, a company can

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also purchase RMB funds to pay suppliers – though in Hong Kong for example only for a specific transaction – and it can exchange received RMB into foreign currency without difficulty.

The rules are still being developed and may be subject to further changes. To foreign businesses that are interested in this possibility, the best place to start is to talk to your bank or another bank with good links to China. Especially companies that both purchase from and sell to Chinese counterparts can benefit.

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