CASH MANAGEMENT

cashmanagement.bnpparibas.com/atlas-countries
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Introduction to CHINA

China's nominal GDP was USD 14.3 trillion in 2019 while its GDP measured on a purchasing power parity (PPP) basis has been the largest in the world since 2014. China is the world's largest exporter of goods (with a 13% global market share in 2019) and a global industrial leader. China has also become a global financial player. The process of capital account liberalisation and RMB internationalisation is underway, although it has faced delays since 2015. Periods of large capital outflows and RMB depreciation pressures have led to the tightening of controls over resident capital outflows. Meanwhile, the opening of local financial markets to foreign investors has continued steadily.

The RMB was included as the fifth currency in the IMF Special Drawing Rights (SDR) basket in October 2016. The Chinese currency has long been controlled through a managed-float FX regime. Since 2014, the authorities have increased the currency's two-way short-term volatility and given market forces a greater role in the determination of the exchange rate. Political factors and US-China trade tensions may also affect the country's FX policy.

Economic growth fell from 7.1% per year in 2012-2019 from 10.7% in 2002-2011. In 2020, the COVID-19 crisis has demonstrated that the Chinese economy has a strong capacity to absorb a major shock and rebound; real GDP returned to its pre-crisis level at the end of Q2, 2020 and economic growth should reach 2.5% this year. It should rebound to close to 8% in 2021, but China's structural slowdown is projected to continue in the medium term. While US tariff hikes have been hurting China's export manufacturing sector hard since 2018, China continues a difficult economic transition: its investment/export-led growth model has reached its limits and far-reaching reforms are still needed to build a more balanced growth model that is more reliant on consumption and services, and less dependent on credit. The authorities also plan to support a major rise in the industry's value chain and the steady development of high-tech sectors – both to meet domestic demand and export higher value-added goods.

The transition process requires many changes, from industrial restructuring to strengthening of the social safety net, rationalisation of the public sector and financial reform. Vulnerabilities in the financial system have grown steadily in the past decade as a result of the credit boom in the corporate and local government sectors and supervision flaws that have contributed to the rapid expansion of shadow banking activities. Since late 2016, however, the authorities have tightened the financial sector's regulatory framework, triggering a slight decline in domestic corporate debt. Deleveraging in the corporate sector is likely to be interrupted this year but the authorities should continue to prioritise the reduction of financial instability risks.

Summary

BNP Paribas presence

BNP Paribas was the first foreign bank to open a representative office in Beijing in 1980, becoming a branch in 1997. The bank was awarded the Greenwich award for “Quality Leader Large Corporate Cash Management No 1”, Total Asia, 2018. The bank has four business centres in Shanghai, Beijing, Guangzhou and Tianjin, and a further 16 retail locations, together with full service retail banking through Bank of Nanjing.

It is one of the few international banks catering for both the domestic and international cash management requirements of customers, both foreign companies doing business in China and Chinese entities seeking to expand their international focus. The bank has a full RMB licence to serve all types of corporate clients in all currencies.

BNP Paribas is a major player in trade finance throughout Asia, offering a full suite of traditional trade (letters of credit, bankers’ guarantee, trade financing, standby letters of credit, etc.) and supply chain financing solutions (receivables purchase programmes, supplier financing etc.) products, including a unique inventory solution offered through our trade centres in Australia, China, Japan and Singapore, specifically for companies engaged in international trade, as part of a wider network of more than 100 trade centres globally. BNP Paribas has experienced trade finance advisors and personnel who deliver a range of customised trade solutions and advise on local market practices. These solutions are supported by the bank’s ISO-certified trade services support team.
Currency

- Renminbi (RMB). Onshore RMB is referred to as CNY; offshore RMB is referred to as CNH.

Exchange Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rate: CNY per USD</td>
<td>6.2275</td>
<td>6.6445</td>
<td>6.759</td>
<td>6.616</td>
<td>6.91</td>
</tr>
</tbody>
</table>


Central Bank

- The Chinese central bank is the People’s Bank of China (PBC - [www.pbc.gov.cn](http://www.pbc.gov.cn))
- Chinese banks are supervised by the China Banking Regulatory Commission (CBRC – [www.cbrc.gov.cn](http://www.cbrc.gov.cn)).

Bank accounts

Resident / non-resident status

- A company is generally considered to be resident in China if it is incorporated or effectively managed or controlled in China, unless the enterprise is regarded as resident in another country under a double tax treaty.

Bank accounts for resident entities

<table>
<thead>
<tr>
<th></th>
<th>Within China</th>
<th>Outside China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Currency</td>
<td>Permitted without restriction, convertible subject to the presentation of commercial documents to foreign exchange banks</td>
<td>Permitted with restrictions</td>
</tr>
<tr>
<td>Foreign Currency</td>
<td>Permitted with restrictions, convertible</td>
<td>Permitted subject to prior State Administration of Foreign Exchange (SAFE) approval, convertible</td>
</tr>
</tbody>
</table>
**Bank accounts for non-resident entities**

<table>
<thead>
<tr>
<th></th>
<th>Within China</th>
<th>Outside China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local Currency</strong></td>
<td>Permitted without restriction, convertible</td>
<td>Permitted with restrictions and prior People's Bank of China (PBOC) approval, convertible</td>
</tr>
<tr>
<td><strong>Foreign Currency</strong></td>
<td>Permitted with prior SAFE approval, convertible</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

**Lifting fees**

- Per item-based charges and/or subscription fees are applied on payments between resident and non-resident bank accounts.

**BNP Paribas Cash Management Capabilities**

**Liquidity Management**

- Physical cash pooling
- Notional pooling - Balance compensation
- Notional pooling - Interest optimisation

- Supported by BNP Paribas
- Not required / permitted in CHINA or not supported by BNP Paribas

**Collections**

- Cash collections
- Cheque collections
- Direct debit collections
### Payments

<table>
<thead>
<tr>
<th>Service</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic incoming transfers</td>
<td>✔️</td>
</tr>
<tr>
<td>Virtual IBAN</td>
<td></td>
</tr>
<tr>
<td>Virtual accounts</td>
<td></td>
</tr>
<tr>
<td>International incoming transfers</td>
<td>✔️</td>
</tr>
<tr>
<td>Card acquiring</td>
<td>✔️</td>
</tr>
<tr>
<td>Cash withdrawals</td>
<td></td>
</tr>
<tr>
<td>Cheque payments</td>
<td>✔️</td>
</tr>
<tr>
<td>Direct debit payments</td>
<td>✔️</td>
</tr>
<tr>
<td>Domestic outgoing transfers</td>
<td>✔️</td>
</tr>
<tr>
<td>Commercial cards</td>
<td></td>
</tr>
<tr>
<td>Virtual cards</td>
<td></td>
</tr>
<tr>
<td>International outgoing transfers</td>
<td>✔️</td>
</tr>
<tr>
<td>SWIFT gpi</td>
<td></td>
</tr>
<tr>
<td>Real-time international payments through BNP Paribas' network</td>
<td></td>
</tr>
<tr>
<td>Card issuing</td>
<td>✔️</td>
</tr>
</tbody>
</table>

**Supported by BNP Paribas**

**Not required / permitted in CHINA or not supported by BNP Paribas**
Channels

<table>
<thead>
<tr>
<th>Channels</th>
<th>Supported by BNP Paribas</th>
<th>Not required / permitted in CHINA or not supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local e-Banking</td>
<td>✅</td>
<td></td>
</tr>
<tr>
<td>Global e-Banking - Connexis</td>
<td>✅</td>
<td></td>
</tr>
<tr>
<td>SWIFT/ host to host</td>
<td>✅</td>
<td></td>
</tr>
</tbody>
</table>

Payments & Collections

Market overview

- China has embraced the digital payments revolution. The PBC, for example, is trialling a scheme to replace paper money with a digitized version of the Renminbi, with some civil servants receiving half their monthly salaries in the form of e-RMB. QR codes are a common method of payment in China (at the end of 2019, the PBC released a plan calling for sector-wide QR code compatibility), with Alipay and WeChat Pay the largest digital payment platforms in the country; both platforms have registered over a billion users. Over 90% of people use WeChat Pay or Alipay as their primary payment method.
- Electronic banking services are available from most banks. There is no national electronic banking standard in China, so companies use banks’ proprietary services. Online and mobile banking services are widely available and hugely popular, given the high numbers of smartphone users using their devices to access the internet (approximately 99% of users).
- The Internet Banking Payment System (IBPS) integrates the online banking operations of most of the country’s large domestic and foreign banks. Customers can make online transactions in real time, as well as access real-time account information via the IBPS. The limit for a single transaction is RMB 50,000.

Payment systems

<table>
<thead>
<tr>
<th>CNAPS-HVPS</th>
<th>Type</th>
<th>Real-time gross settlement.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>· Real-time gross settlement.</td>
</tr>
<tr>
<td>Participants</td>
<td></td>
<td>· 318 direct, 146,559 indirect.</td>
</tr>
<tr>
<td>Transaction types processed</td>
<td></td>
<td>· High-value (RMB 50,000 and above) and urgent RMB-denominated electronic payments.</td>
</tr>
<tr>
<td>Operating hours</td>
<td></td>
<td>· 08:00–17:00 CST, Monday to Saturday.</td>
</tr>
<tr>
<td></td>
<td>Clearing cycle details (e.g. cut-off times)</td>
<td>System holidays</td>
</tr>
<tr>
<td>--------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| CNAPS-BEPS               | · Payments are cleared and settled in real time if both the sending and recipient banks are direct clearing members of CNAPS (China National Advanced Payment System).  
· All other payments are settled on a two-day cycle.  
· Cut off time = 17:00 CST. | · CNAPS-HVPS is closed on all Chinese bank holidays.  
· China's bank holidays are:  
· 2nd half 2020: 1*, 2-5 October.  
· 2021: January 1, February 12–17, April 5, May 1, June 14*, September 21*, October 1–5.  
· The date shown may vary by plus or minus one day. These dates are derived by converting from a non-Gregorian calendar (e.g., Muslim or Hindu) to the Gregorian calendar. Some of these dates cannot be determined in advance with absolute accuracy, even by the governing authorities. In the case of Muslim dates in particular, the feast days are determined by the sighting of a new/full moon. |
| CIS                      | · Electronic cheque clearing system.                                    | · CNAPS-BEPS is closed on all Chinese bank holidays. (Dates as above)             |
| CDFCPS                   | · Real-time gross settlement.                                            | · The CIS is closed on all Chinese bank holidays (dates above).                  |

<table>
<thead>
<tr>
<th>Type</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants</td>
<td>294 direct, 145,735 indirect.</td>
<td></td>
</tr>
<tr>
<td>Transaction types</td>
<td>Low-value (below RMB 50,000) and non-urgent RMB-denominated</td>
<td></td>
</tr>
<tr>
<td>processed</td>
<td>electronic credit and debit payments.</td>
<td></td>
</tr>
<tr>
<td>Operating hours</td>
<td>24 hours a day, Monday to Saturday.</td>
<td></td>
</tr>
<tr>
<td>Clearing cycle details</td>
<td>The credits and debits of a receiving bank are settled on a</td>
<td></td>
</tr>
<tr>
<td>(e.g. cut-off times)</td>
<td>next-day basis.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dated debits are settled on a two-day cycle.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cut-off time = 16:00 CST.</td>
<td></td>
</tr>
<tr>
<td>System holidays</td>
<td>CNAPS-BEPS is closed on all Chinese bank holidays. (Dates as</td>
<td></td>
</tr>
<tr>
<td></td>
<td>above)</td>
<td></td>
</tr>
<tr>
<td>Type</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participants</td>
<td>1,161.</td>
<td></td>
</tr>
<tr>
<td>Transaction types</td>
<td>Inter-city paper-based payments which are truncated into</td>
<td></td>
</tr>
<tr>
<td>processed</td>
<td>electronic items before being processed.</td>
<td></td>
</tr>
<tr>
<td>Operating hours</td>
<td>24 hours a day.</td>
<td></td>
</tr>
<tr>
<td>System holidays</td>
<td>The CIS is closed on all Chinese bank holidays (dates above).</td>
<td></td>
</tr>
<tr>
<td>Type</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participants</td>
<td>31 direct.</td>
<td></td>
</tr>
<tr>
<td>Transaction types</td>
<td>Foreign currency (AUD, CAD, CHF, EUR, GBP, HKD, JPY and USD)</td>
<td></td>
</tr>
<tr>
<td>processed</td>
<td>electronic transfers.</td>
<td></td>
</tr>
</tbody>
</table>
Operating hours

- 09:00-17:00 CST, Monday to Saturday.

Clearing cycle details (e.g. cut-off times)

- Payments are cleared and settled in real time.
- Cut-off time = 17:00 CST.

System holidays

- CDFCPS is closed on all Chinese holidays. (Dates as above)

CIPS

<table>
<thead>
<tr>
<th>Type</th>
<th>Real-time gross settlement.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Participants</th>
<th>31 direct and 768 non-direct participants.</th>
</tr>
</thead>
</table>

Transaction types processed

- Cross-border RMB payments resulting from trade in goods and services, direct investment, financing and fund transfers for individual customers.

Operating hours

- 24hrs on all business days.

Clearing cycle details (e.g. cut-off times)

- There are two sessions, a day session and a night session. The daytime session on normal working days is from 08:30 to 17:30. Given the time zone of China, the day session on the first working day of every week and after national holidays is brought forward to 04:30. The night session on normal working days is from 17:00 to 08:30 on the next natural day.

System holidays

- CIPS is closed on all Chinese holidays. (Dates as above)

Credit transfers

- Credit transfers are used by companies to pay salaries and suppliers, and to make tax and treasury payments.
- High-value (RMB 50,000 and above) and urgent RMB-denominated credit transfers are settled in real time via CNAPS-HVPS.
- Low-value (below RMB 50,000) and non-urgent RMB-denominated credit transfers are settled on a same-day or next-day basis via CNAPS-BEPS.
- Foreign currency (AUD, CAD, CHF, EUR, GBP, HKD, JPY and USD) fund transfers can be settled in real time via the CDFCPS.
- Cross-border transfers can be made via SWIFT and settled through correspondent banks abroad.
- The number of credit transfers processed fell by 10% in 2018, on 2017 figures, to nine billion. Value fell 2.3% to RMB 2,716 trillion.

Direct debits

- Direct debits are available but not widely used in China.
- Direct debits are available in the form of pre-authorised collections or dated debits.
- Direct debits can be settled on a same-day (pre-authorised collections) or next-day (dated debits) basis via CNAPS-BEPS.
- The number of direct debits processed fell 50% in 2018, on 2017 figures, to one billion. Value fell 9.3% to RMB 39 trillion.
Cheques

- The cheque is a common cashless payment instrument used primarily by small companies.
- There is a maximum permitted payment value of RMB 500,000 per cheque.
- Intercity cheques are truncated into electronic items and processed via the CIS. Final settlement is via CNAPS-BEPS.
- Intracity cheques are settled via the local clearing house system on a same-day basis.
- The value of cheques processed in 2018 fell 13.4% to RMB 149 trillion.

Card payments

- Card payments are increasingly popular, especially for retail transactions.
- In Q4 2019, there were 93 billion card transactions, with a value of RMB 226.9 trillion, a year-on-year increase of 53% and 7.8% respectively. The issuance of new bank cards fell 6.5% on Q3 to 267 million.
- China UnionPay (CUP) is China’s national payment card operator. It has 80 member banks.
- Most payment cards are issued under the CUP brand.
- Visa and MasterCard-branded payment cards are also available.
- The central bank is promoting the use of chip-embedded payment cards with IC-based bank cards. Two billion IC cards had been issued in China.
- Contactless payment cards are issued.
- All card payments are processed and cleared via CNAPS-BEPS on a same-day or next-day basis.

ATM/POS

- There were 11 million ATMs in China at the end of 2019.
- There were 32.4 million POS terminals in China at the end of 2019.
- All payments are settled via CNAPS-BEPS on a next-day basis.

Electronic wallet

- Mobile wallet payments are popular for small-value items. WeChat and Alipay mobile payment apps are most popular accounting for more than 90% of all mobile payments.
- QR codes are a common method of payment in China, accounting for over 11% of all mobile payment transactions in value terms.
- In Q4 2019, 62 billion electronic payments were processed with a value of RMB 654 trillion; mobile payments totalled 30 billion, with a value of RMB 94 trillion, a year-on-year increase of 73.5% and 21% respectively.
- The China Nets Union Clearing Corporation platform is mandatory for transactions involving third-party online payment firms and banks.

Channels

Market overview

Liquidity management

Domestic: notional pooling

- Domestic notional cash pools are available, although their use is subject to numerous PBOC and SAFE (State
Domestic: cash concentration

- Domestic cash concentration is permitted in domestic and foreign currency between resident and non-resident companies operating under the same legal entity.
- Approval from SAFE is required when sweeping FCY between different entities except in instances where the sweeping occurs between two non-resident accounts in China for specific purposes.
- Domestic cash concentration structures are usually arranged using entrustment loan (EL) agreements, which allow entities to use Chinese registered financial institutions to act as financial intermediaries, avoiding restrictions on inter-company loans. EL agreements are subject to SAFE approval.
- Under the terms of the Pudong Nine measures, multinational companies are permitted to: use ELs to operate foreign currency cash pooling with domestic group entities; concentrate foreign currency funds from overseas subsidiaries and SAFE-approved funds from domestic subsidiaries to offshore accounts known as offshore banking units; and centrally manage domestic payments to, and collections from, an overseas parent company, if authorised by Chinese group entities.

Cross-border notional pooling

- Cross-border notional cash pools are available, although their use is limited and subject to PBC and SAFE restrictions.

Cross-border cash concentration

- Cross-border cash pooling is permitted in RMB and foreign currency. RMB is permitted to be the account currency for Domestic Master Accounts.
- Qualifying non-resident multinational companies may also be able to fund and repatriate funds from Chinese subsidiaries using the EL structure (see above).

Short term investments

Market overview

Interest payable on credit balances

- Interest-bearing current, checking and demand deposit accounts are permitted.

Demand deposits

- Demand deposits denominated in RMB or major foreign currencies are available.
- Banks are free to set rates on EUR, HKD, JPY and USD deposits if amounts are equal to or higher than USD 3 million or its foreign currency equivalent. The interest rate on amounts less than USD 3 million denominated in EUR, HKD, JPY and USD, is subject to a ceiling published by the central bank.

Time deposits

- Time deposits are available in RMB or major foreign currencies for terms ranging from one week to one year.
- Banks are free to set rates on EUR, HKD, JPY and USD deposits if amounts are equal to or higher than USD 3 million or its foreign currency equivalent. The interest rate on amounts less than USD 3 million denominated in EUR, HKD, JPY and USD, is subject to a ceiling published by the central bank.
Foreign currency time deposits are available for terms ranging from three months to two years.

Certificates of deposit

- CDs can be issued paying fixed or variable interest. Fixed rate CDs have terms of a year or less. Variable interest CDs have maturities greater than one year.

Treasury (government) bills

- Short-term Treasury bills are issued by the Chinese government. Terms vary.

Commercial paper

- Domestic commercial paper and corporate bills are issued by companies. All commercial paper in excess of RMB 3 million is required to be issued electronically.

Money market funds

- Domestic money market funds are available in the interbank market.

Repurchase agreements

- Repurchase agreements are increasingly commonplace in China.

Bankers' acceptances

- These are not common in China.

BNP Paribas insights

BNP Paribas Trade Finance Capabilities

Trade payments

<table>
<thead>
<tr>
<th>Documentary credits</th>
<th>✔️</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documentary collections</td>
<td>✔️</td>
</tr>
</tbody>
</table>

- Supported by BNP Paribas
- Not required / permitted in CHINA or not supported by BNP Paribas

Guarantees
### Bank guarantees
- Supported by BNP Paribas
- Not required / permitted in CHINA or not supported by BNP Paribas

### Supply chain management

<table>
<thead>
<tr>
<th>Component</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>Supported by BNP Paribas</td>
</tr>
<tr>
<td>Payables</td>
<td>Supported by BNP Paribas</td>
</tr>
<tr>
<td>Inventory</td>
<td>Not required / permitted in CHINA or not supported by BNP Paribas</td>
</tr>
</tbody>
</table>

### Trade channels

<table>
<thead>
<tr>
<th>Channel</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connexis Trade</td>
<td>Supported by BNP Paribas</td>
</tr>
<tr>
<td>Connexis Supply Chain</td>
<td>Supported by BNP Paribas</td>
</tr>
<tr>
<td>SWIFTNet Trade for Corporates</td>
<td>Supported by BNP Paribas</td>
</tr>
<tr>
<td>Connexis Connect</td>
<td>Supported by BNP Paribas</td>
</tr>
</tbody>
</table>

- Not required / permitted in CHINA or not supported by BNP Paribas | ![Cross] |
International trade

General trade rules

- As a member of the Asia Pacific Economic Cooperation (APEC) forum, China has agreed to liberalise trade and investment rules between member states.

Trade agreements

- China has signed bilateral or multilateral free trade agreements with more than 20 countries and regions.
- China has signed a Closer Economic Partnership Agreement (CEPA) with Hong Kong and Macau.
- The China-ASEAN Free Trade Area (CAFTA) eliminates 90% of tariff and investment barriers between the two parties.

Imports / exports

<table>
<thead>
<tr>
<th>Imports</th>
<th>Electrical and other machinery</th>
<th>Oil and mineral fuels</th>
<th>Nuclear reactor boiler and machinery components</th>
<th>Optical and medical equipment</th>
<th>Metal ores</th>
<th>Motor vehicles</th>
<th>Soybeans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Import sources</td>
<td>South Korea (9.7%)</td>
<td>Japan (8.6%)</td>
<td>USA (7.3%)</td>
<td>Germany (5%)</td>
<td>Australia (4.9%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exports</th>
<th>Electrical and other machinery</th>
<th>Data processing equipment</th>
<th>Apparel</th>
<th>Telecoms equipment</th>
<th>Textiles</th>
<th>Integrated circuits</th>
<th>Furniture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export markets</td>
<td>USA (19.2%)</td>
<td>Hong Kong (12.2%)</td>
<td>Japan (5.9%)</td>
<td>South Korea (4.4%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Import / export volumes

<table>
<thead>
<tr>
<th>Exports</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>- goods</td>
<td>USD bn</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,143</td>
<td>1,990</td>
<td>2,216</td>
<td>2,417</td>
<td>2,399</td>
</tr>
<tr>
<td>- services</td>
<td>USD bn</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>217</td>
<td>208</td>
<td>213</td>
<td>234</td>
<td>244</td>
</tr>
</tbody>
</table>
## Trade finance - imports

### Documentation

- The following documentation is required in order to import goods into China:
  - bill of lading
  - certificate of origin
  - commercial invoice
  - contract
  - custom import declaration
  - import Licence approved by the Ministry of Commerce for Mechanical and Electrical Products
  - inspection declaration
  - packing list
  - telex release guarantee letter.

### Import licences

- Licences are required when importing certain items for reasons of health and safety, environmental protection and/or national security.

### Import taxes and tariffs

- Tariffs are set in one of six categories: most favoured nation, conventional, preferential, general, tariff quota and temporary.
- From 1 January 2019, conventional duty rates with New Zealand, Peru, Costa Rica, Switzerland, Iceland, South Korea, Australia, Georgia, and Asia-Pacific Trade Agreement countries have been reduced.
- China's overall tariff rate is 7.5%.
- As of 1 July 2019 goods originating in Hong Kong and Macao have zero tariffs.

### Financing requirements

- None

### Risk mitigation

- None
Prohibited imports

- Prohibited imports are published on a negative list.
- China prohibits the import of certain items in order to protect fauna and flora, for health and safety or moral reasons, and/or for national security.
- Narcotics, weapons, recorded or printed materials are also controlled and restricted.

Trade finance - exports

Documentation

- The following documentation is required in order to export goods from outside China:
  - bill of lading
  - certificate of origin
  - commercial invoice
  - custom declaration letter of trust
  - custom export declaration
  - customs power of attorney
  - packing list.

Export licences

- Licences are required when exporting certain agricultural products, certain metals, vehicles, ozone depleting goods, paraffin, certain fresh and frozen meats, molybdenum and its products, vitamin C and citric acid.

Export taxes and tariffs

- Export tariffs of between 5% and 75% are placed on certain goods. Export rebates are part of China’s VAT system.

Financing requirements

- None

Risk mitigation

- The China Export and Credit Insurance Corporation (Sinosure), China’s official export and credit insurer, provides state-supported export credit insurance.
- Export credit insurance and finance are also available from the state-owned Export-Import Bank of China (China Eximbank).

Prohibited exports

- Prohibited exports are published on a negative list.
- China prohibits the export of certain items for cultural and moral reasons, and/or for national security.
- Certain items are subject to a Chinese government monopoly.
- Certain items can only be exported by specially designated traders.
Regulatory requirements

Reporting regulations

- Transactions between resident accounts and non-residents accounts must be reported to SAFE.
- Foreign currency transactions to or from a resident account must be reported to SAFE.
- Trading entities must provide details of all foreign trade transactions to SAFE.

Exchange controls

- Exchange controls are administered by SAFE under the direction of the PBC. There are no controls on current account items.
- Trade-related settlement transactions are classified as current account transactions, and mainly relate to import payments and export proceeds.
- Companies are permitted to hold foreign exchange income in current accounts in line with their operational requirements and subject to quotas.
- Resident and non-resident companies are permitted to use RMB for trade and investment.

Taxation

Resident / non-resident

- The Enterprise Income Tax Law (EITL) adopts the international concept of residence, expanding the Chinese definition to cover both enterprises incorporated in China and enterprises that are effectively managed or controlled in China.
- Effective management is defined as substantial and overall management and control over manufacturing and business operations, human resources, financial and property aspects of the entity. A foreign company also will be subject to tax in China if it has an “establishment” in China or, if it does not have an establishment in China, it derives income from China. The definition of establishment is broad and does not include an exemption for an independent agent. If a foreign company has an establishment in China, it will be subject to China tax on all income effectively connected with that establishment.

Tax authority

- Ministry of Finance (“MOF”).
- State Administration of Taxation (“SAT”).

Financial instruments

- Interest income from central government bonds is exempt from income tax. Interest income from local government bonds issued in 2012 and thereafter is also exempt from income tax.
- In order to encourage the continued growth of securities investment funds, corporate investors are temporarily exempt from enterprise income tax for any income distributed from securities investment funds under specific rules (Caishui [2008] No 1).

Interest and financing costs

- The EITL has a thin capitalisation rule, which is further specified in specific rules (Caishui [2008] No 121): a debt-
to-equity ratio of 2:1 for general enterprises, and of 5:1 for financial enterprises. A deduction is not allowed for interest expenses incurred on any related-party debt investments exceeding these debt-to-equity ratios, unless the underlying transactions are in compliance with the arm's-length principle (demonstrated through contemporaneous documentation), or the interest expenses are payable to domestic related parties subject to higher effective tax rates. The implementation rules of the EITL clarify that ‘debt investments’ refers to arrangements where an enterprise has directly or indirectly acquired financing from related parties, and where the enterprise is required to repay the principal and make interest payments to the lending party (or any other form of compensation which is of an interest payment nature).

**Foreign exchange**

N/A

**Advance tax ruling availability**

- There generally is no advance ruling procedure, by the tax authorities can issue rulings in special cases. Taxpayers normally consult their local in-charge tax officials when issues arise.
- Advance pricing agreements may be concluded.

**Capital gains tax**

- Gains and losses from the transfer of assets generally are combined with other operating income and taxed at the applicable company tax rate.
- For resident companies with foreign investments, capital gains are taxed as part of a company’s taxable profits at the applicable corporation tax rate. Capital gains derived from the transfer of equity interest are calculated as the difference between the sale proceeds and the original cost of the investment. Specific guidance (Guoshuihan [2010] No 79) further clarifies that undistributed profits and other reserves of shareholders are included in the computation of capital gains.
- Chinese-sourced gains derived by foreign companies from property transfer are generally subject to a 10% withholding income tax under the implementation rules of the EITL.
- Specific guidance released by the SAT (Guoshuihan [2009] No 698, Bulletin [2011] No.24 and Bulletin [2015] No.7) addresses the transfer of an equity interest by non-resident companies. It outlines reporting requirements and taxation guidelines for non-residents’ direct and indirect transfers of Chinese resident companies’ equity interests. A 10% withholding income tax will generally be imposed on the gains from the transfer of a Chinese resident company by a non-resident company, unless an exemption is available under a tax treaty. Subject to the SAT’s approval, the tax authorities may disregard the existence of an offshore intermediary holding company and tax the transfer of its shares in China, where the parties to the transaction are considered to have abused the legal form and conducted the transaction with a view to avoiding Chinese tax, without bona fide commercial purposes.

**Withholding tax (subject to tax treaties)**

<table>
<thead>
<tr>
<th>Payments to:</th>
<th>Interest</th>
<th>Dividends</th>
<th>Royalties</th>
<th>Other income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident entities</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Non-resident entities</td>
<td>10/20%*</td>
<td>10/20%</td>
<td>10/20%</td>
<td>25%††</td>
</tr>
</tbody>
</table>

* Although the EITL provides for a 20% withholding tax, the rate is reduced to 10% under the implementation rules. As
a measure to promote foreign investment, the government has issued rules to provide a deferral of withholding tax on dividends and profits distributed to foreign investors and reinvested into encouraged investment projects in China, with retroactive effect from 1 January 2017.

** A 10% withholding tax, which is lowered from a 20% statutory rate, applies to interest paid to a non-resident unless the rate is reduced under a tax treaty. A 6% VAT also is imposed. Bond interest derived by foreign institutional investors from Chinese bond markets may be exempt from both income tax and VAT for the period from November 7 2018 to November 6, 2021.

A 10% withholding tax, which is lowered from a 20% statutory rate, applies to royalties paid to a non-resident unless the rate is reduced under a tax treaty. A 6% VAT generally is applicable, but may be waived when royalties are paid for the transfer of qualified technology.

Technical service fees paid to a non-resident are subject to the statutory enterprise income tax rate (i.e. 25%) on a net-profit basis to the extent the services are rendered in China, unless the tax is reduced under a tax treaty. A minimum 15% deemed profit rate is used where documents substantiating costs and expenses are unavailable. A 6% VAT generally will be levied regardless of where the services are rendered.

Tax treaties / tax information exchange agreements (TIEAs)

- A new self-assessment mechanism has been introduced for non-resident taxpayers to claim treaty benefits. Before 1 November 2015, it had been mandatory for a non-resident to request pre-approval for treaty benefits from the tax bureau in charge following the procedures and documentation requirements stated in Guoshuifa [2009] No 124; otherwise, treaty benefits were denied. However, with effect from 1 November 2015, a new circular (Bulletin [2012] No 60) now permits a non-resident to claim treaty benefits without the tax bureau's pre-approval provided the taxpayer considers that the relevant cross border transaction qualifies for tax treaty benefits and is able to provide the tax authorities with the required documentation – as prescribed in the Bulletin - as and when required.
- A circular (Guoshuihan [2009] No 601) provides guidance for determining whether a resident of a contracting state is the ‘beneficial owner’ of dividend, interest or royalty income under China's tax treaties. It emphasises that a beneficial owner must generally be engaged in substantive business activities. An agent or conduit company is not regarded as a beneficial owner. A recent circular (Bulletin [2012] No 30) further clarifies the determination of ‘beneficial owner’ and introduced a ‘safe harbour’ concept for listed companies; it simplifies the determination of ‘beneficial owner’ insofar as recipients of ‘dividends’ are listed companies or qualifying group companies.
- The SAT released its first detailed interpretation of the provisions in China's tax treaties in 2010 (Guoshuifa [2010] No 75) since the EITL took effect on
- 1 January 2008. The guidance was issued in the context of an interpretation of the 2007 China-Singapore tax treaty and its protocol, but also applies to any similar provisions in China's other tax treaties/arrangements, and supersedes any previous interpretations that are inconsistent with this circular. Circular 75 therefore should be regarded as general guidance on tax treaty issues in practice.
- China has exchange of information relationships with 113 jurisdictions through 103 double tax treaties and ten TIEAs.

Thin capitalisation

- China imposes mandatory debt-to-equity ratios for foreign invested enterprises, and the equity of a foreign invested enterprise should be paid up within a stipulated time period.
- The EITL has a thin capitalisation rule, which is further specified in specific rules (Caishui [2008] No 121): a debt-to-equity ratio of 2:1 for general enterprises, and of 5:1 for financial enterprises. A deduction is not allowed for interest expenses incurred on any related-party debt investments exceeding these debt-to-equity ratios, unless the underlying transactions are in compliance with the arm's-length principle (demonstrated through contemporaneous documentation), or the interest expenses are payable to domestic related parties subject to higher effective tax rates. The implementation rules of the EITL clarify that ‘debt investments’ refers to arrangements where an enterprise has directly or indirectly acquired financing from related parties, and where the enterprise is required to repay the principal and make interest payments to the lending party (or any other
form of compensation which is of an interest payment nature).

**Transfer pricing**

- China has transfer pricing rules. China has adopted a broad definition of associated enterprises with a strong emphasis on control. An entity with significant control over the taxpayer’s senior management, purchases, sales, production and the intangibles and technologies required for the business is defined as a related party. Accepted methodologies are the comparable uncontrolled price, resale price, cost plus, transactional net margin, profit split and other methods in compliance with the arm's-length principle. Contemporaneous documentation is required (with certain exemptions) and cost sharing agreements may be used for developing intangible property or for shared services arrangements. A resident taxpayer that is the ultimate parent of a multinational group with annual consolidated revenue exceeding a threshold amount or that is appointed as the filing entity of a multinational group is required to file a country-by-country report.
- Advance pricing agreements are available.

**Stamp duty**

- Stamp duty at varying rates applies to contracts, agreements and certain legal documents.

**Cash pooling**

- There are no specific tax rules in China that apply to cash pooling arrangements.

**Financial transactions / banking services tax**

- The 6% VAT on financial services applies to lending, fee-based financial and banking services, insurance services, and transfers of financial assets. Financial leasing in the form of “sale-first-lease-back” is also treated as a lending service under the VAT reform. Financial assets cover foreign exchanges, equity securities, non-commodity futures and other financial products (e.g. funds, trusts, asset management programmes and other financial derivatives).

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