2018 China Business Outlook

THE Asset BENCHMARK RESEARCH

Standard Chartered

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Introduction

During the 19th National Congress in October last year, President Xi Jinping stressed the importance of pursuing the One Belt, One Road (OBOR) initiative, giving equal emphasis to both "bringing in" and "going global".

In this context, Asset Benchmark Research conducted a survey on behalf of Standard Chartered Bank in the fourth quarter of 2017. The project started in early November and spanned a month during which 150 treasurers and senior treasury/finance executives from Asia, Europe and the US were surveyed.

The survey focuses on two main groups of respondents: onshore companies based in mainland China and overseas MNCs. It aims to shed light on the challenges and priorities of CFOs and treasurers, their use of renminbi offshore, and whether or not they are taking advantage of opportunities related to OBOR.

Respondents are segregated according to their business interactions either with overseas or China entities. They are classified as importers, exporters, those that both import and export, and firms that buy and/or sell to their own subsidiaries. For China corporates there is an option for firms that are buying and selling domestically. A fifth category is also offered to overseas companies that have no business activities or investment in China.

Executive Summary

- Since the drop in offshore renminbi activity in early 2017, there is a resurgence this round and companies are more optimistic. The three most popular products among active respondents are deposits, cross-border trade settlement and cross-border cash pooling.
- About two-thirds of respondents that plan to increase their cross-border trade settlement, say that they are likely to increase it beyond the next six months. In terms of overseas trade, most respondents currently settle between 2% and 20% of their overall volume in renminbi (52%).
- After the October party congress an equal proportion of onshore corporates expect more business opportunities in China as they do offshore. Overseas MNCs are more likely to expect favourable prospects in the country or think it is too early to tell.
- The top three China-related risks respondents foresee for their business in 2018 include worsening debt and NPL levels, a collapse in the real estate market, and escalating US-China tensions.
- In view of the recent relaxation in regulations relating to the risk reserve requirements and the more favourable environment for cross-border outflows, three in ten respondents are engaging in cross-border pooling or cross-border financing.
- Most companies surveyed are aware of President Xi's OBOR strategy. Seventeen percent of CFOs and treasurers are participating in projects related to the initiative and almost an equal proportion are considering investment opportunities in the future.
- Local regulatory, tax, legal and cultural practices and requirements, country/geopolitical/industry related risk index and information for OBOR corridors, and funding solutions are top-of-mind for CFOs and treasurers looking to learn more about the OBOR initiative.

Methodology and Respondent Distribution

Email invitations to take part in the 2018 China Business Outlook:

- The online questionnaire was sent to CFOs, treasurers, finance directors and senior treasury managers in corporations in China, North Asia (Hong Kong, South Korea and Taiwan), South and Southeast Asia (India, Indonesia, Malaysia, Singapore and the Philippines) as well as Europe and the US.
- Two language versions were available: English and simplified Chinese.
- Follow-up interviews were conducted with 69 respondents.
- The respondent distribution of the sample is 45% from China, 39% from North Asia, 15% from South and Southeast Asia, and 1% from Europe and the US.
- Close to half (47%) the corporates surveyed have a group annual turnover of greater than US$1 billion and over 1000 employees in the location where they are based.
- One in five (21%) respondents are small companies with a group annual turnover of less than US$250 million.
- The majority of companies surveyed are in the industrials and manufacturing sector, energy and mining, or are conglomerates.
- Two out of five companies in China are mostly buying and selling to domestic entities. This is the dominant group of onshore companies by business interactions.
- One in three (32%) overseas MNCs are both importing from and exporting to mainland China. This is the largest group of offshore companies by business interactions.

FIGURE 1**. Respondent distribution by region**

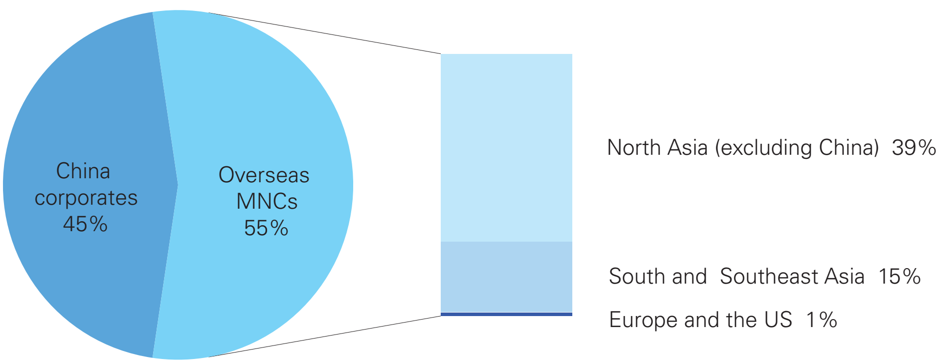


FIGURE 2. **Respondent distribution by group turnover (US$ million)**

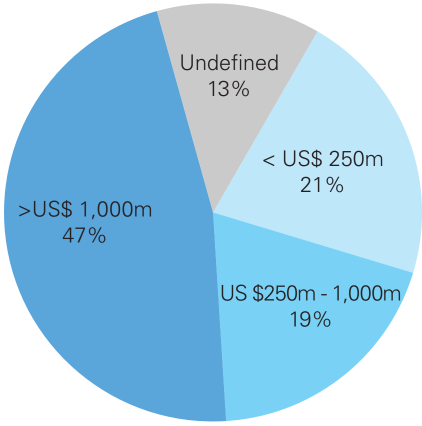


FIGURE 3. **Respondent distribution by sector - China corporates vs overseas MNCs**

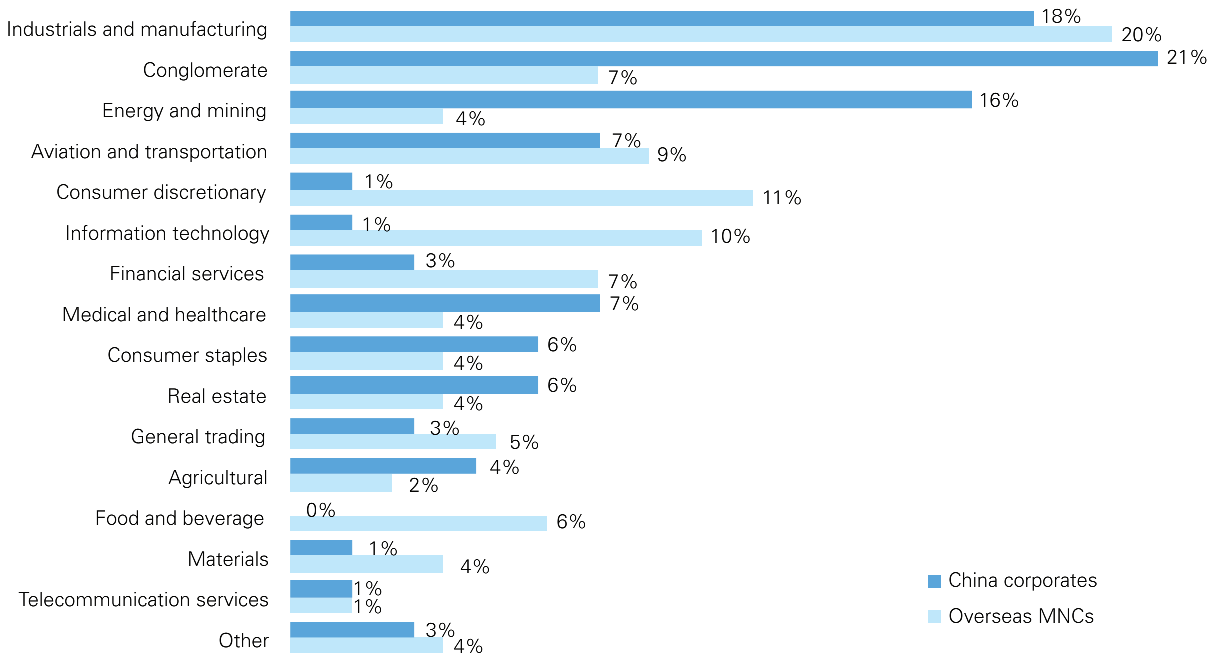
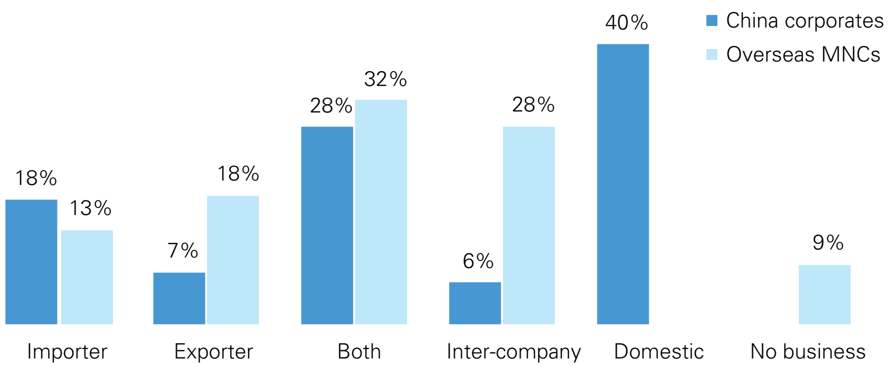


FIGURE 4. **Respondent distribution by main business interactions - China corporates vs overseas MNCs**



Offshore Renminbi Usage

After the drop in offshore renminbi activity in early 2017, there is a resurgence this round and companies are more optimistic. Respondents are most active in offshore renminbi deposits, cross-border trade settlement and cross-border cash pooling. The most commonly used tools for those involved in hedging are forward contracts/swaps and natural hedging. About one in six offshore firms and MNCs based in China say they are interested in the Bond Connect scheme to diversify their exposure.

Planned use of offshore renminbi products

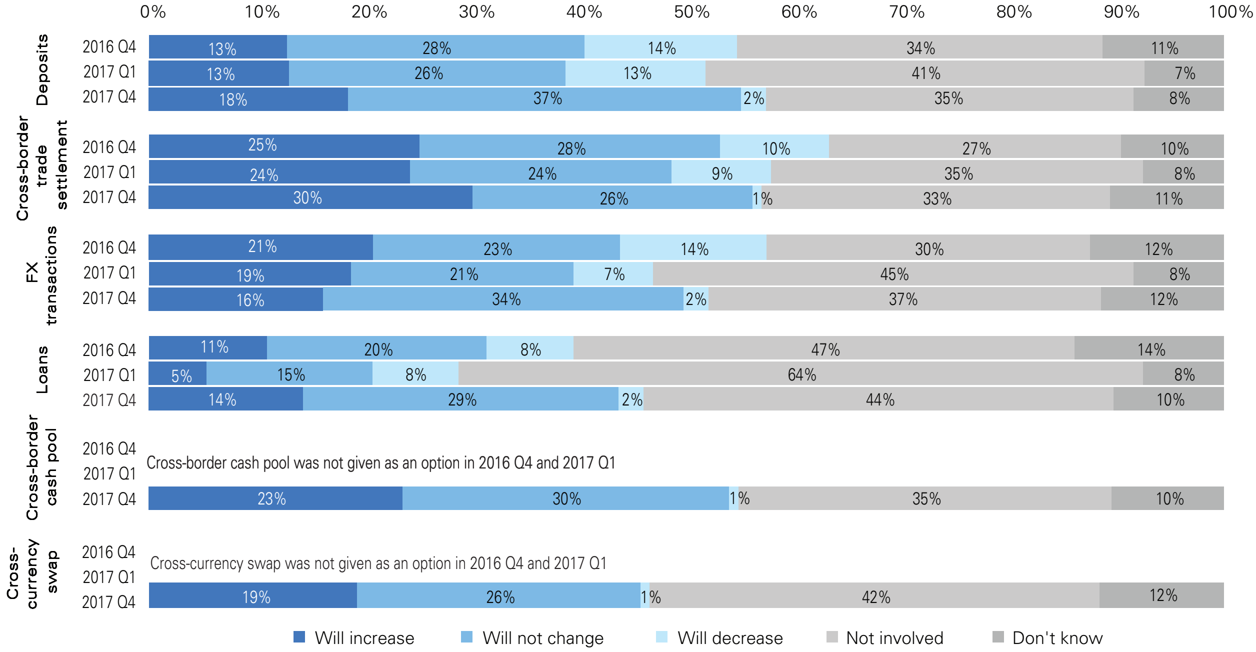
Corporates are queried on how they foresee their use of offshore renminbi to change in the near future. Historically, the survey has tracked the use of offshore renminbi deposits, cross-border trade settlement, FX transactions and loans. This round also covers two additional criteria, namely cross-border cash pooling and cross-currency swap structures. Respondents are asked if they will increase, maintain or decrease their use of these six products in the next half-year. Compared to the drop in offshore activity in the previous round of this survey conducted in the first quarter of 2017, companies are more optimistic. The proportion of respondents active in offshore renminbi deposits and loans have either returned to or surpassed 2016 levels.

Respondents are most active in offshore renminbi deposits, cross-border trade settlement and cross-border cash pooling. CFOs and treasurers are more optimistic about their planned use of deposits and cross-border trade settlement than in early 2017. The majority expect to either maintain or increase their activity in the next six months. *"I think our usage of renminbi in loans, deposits and trade settlement outside China will remain more or less stable,"* says a treasury manager based in Hong Kong. Only 2% expect a decline in their deposit holdings and 1% in cross-border trade settlement in the coming half-year (compared to 13% and 9% in early 2017 respectively).

Fifty-three percent of corporates intend to either increase their involvement in cross-border cash pooling in the next six months or expect their use to remain the same while only 1% plans to decrease their use in the coming half year. An onshore treasury manager of an MNC is hopeful about his company's use in the future due to recent regulatory reforms. *"We will use cross-border pooling because it was not allowed before but now it is available,"* she says.

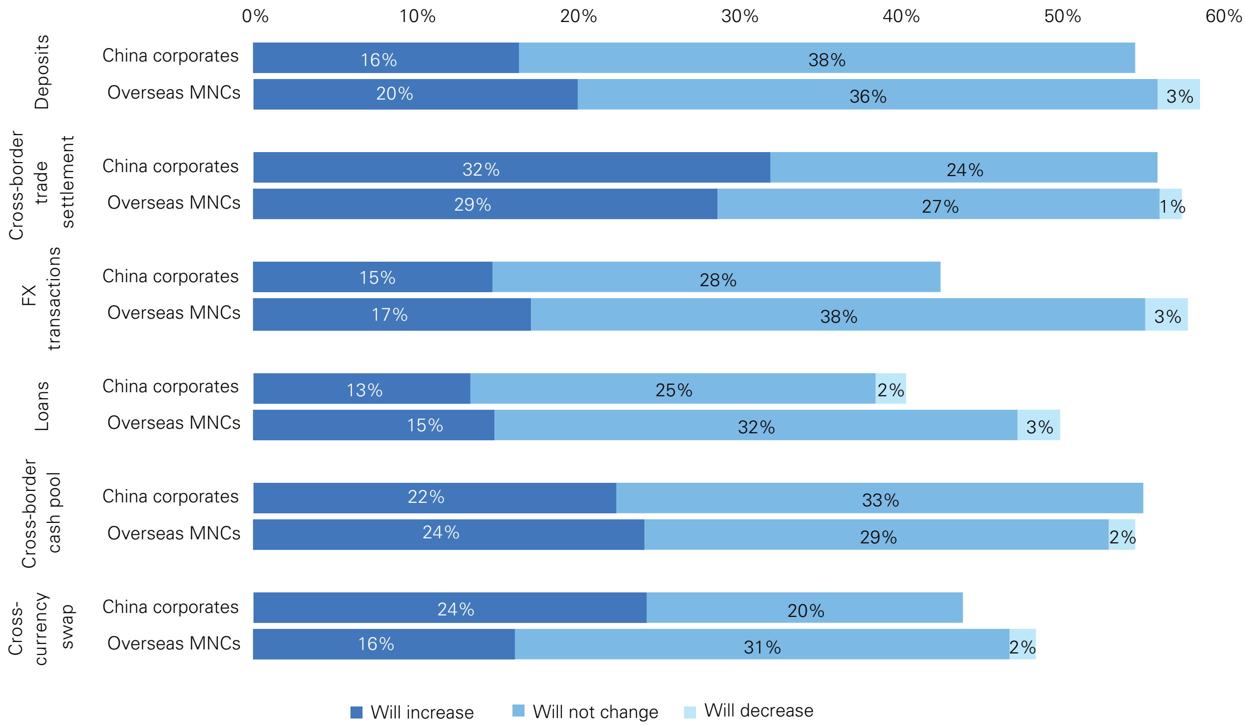
Companies are less active in FX transactions, cross-currency swap structures and offshore renminbi loans by a small margin. Corporates' use of FX transactions is often linked to their business need. *"The main reason for it is for hedging according to the volume of sales we have during the period of time. So, we cannot say that in the coming six months we will definitely increase our FX transactions booked in renminbi, because we need to respond to the market dynamics,"* says an onshore treasury head.

FIGURE 5. **Expectation of offshore RMB product usage in the next six months - 2016 - 2017**



Similarly, for some corporates the value of cross-currency swap structures to obtain cheaper funding is not relevant, as they do not have this need. *"We do not use swap structures because we do not have large payments due overseas and the cost of raising capital is the same onshore and offshore for now,"* explains an onshore finance and investment director. For another China-based finance manager, onshore financing channels are sufficient. *"We are currently not involved in renminbi loans. But we might get involved in this area in the coming six*

FIGURE 6. **Expectation of offshore RMB product usage in the next six months - China corporates vs overseas MNCs**



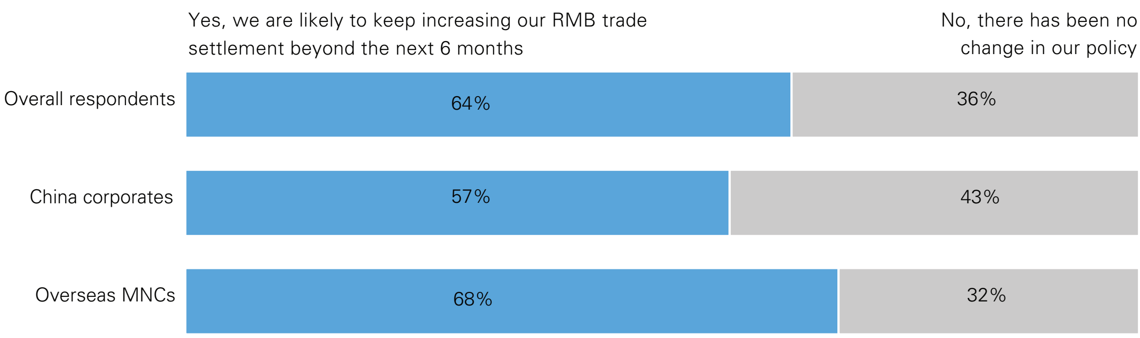
months as long as the cost of using renminbi in these financing solutions is lower. So far the onshore renminbi channels that we have are enough for us to finance our business."

Overall a smaller proportion of respondents are active in cross-border trade settlement in comparison to previous rounds. Many still express a passive attitude. *"It is quite hard to actually use renminbi for trade settlement because though we are willing to use it, our trade counterparties might not want to use it,"* says an onshore CFO.

Attitudes toward renminbi trade settlement

Those respondents that plan to increase their cross-border trades settled in renminbi in the next six months are asked whether there has been a change in their attitude as a result of recent regulatory reforms and the strengthening of the currency. About two-thirds (64%) say they are likely to increase their renminbi trade settlement beyond the next six months. *"We might increase the use of renminbi in the trade settlement because we would like to reduce our exposure to foreign currency to limit our foreign exchange risks,"* says a finance manager in China. The proportion of overseas MNCs that plan to increase beyond the next half year is higher than onshore corporates (68% compared to 57%). For one Taiwan-based senior vice-president however, the decision is not as clear-cut. *"Although renminbi has appreciated and it is sensible to hold more renminbi in deposits, it does not translate into a decision to settle trades in renminbi. We still have to see how the situation goes,"* he says.

FIGURE 7. **Change in attitude towards adopting RMB trade settlement as a result of regulatory reforms and strengthening of the RMB - China corporates vs overseas MNCs**



Trade denominated in renminbi

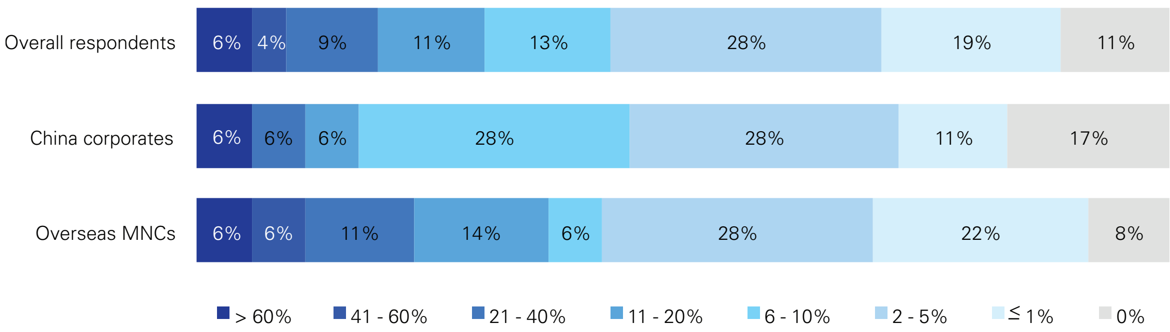
The treasurers and CFOs that are active in renminbi trade settlement are asked the current percentage of their overseas trade denominated in renminbi. Those who settle between 2% and 20% of their overall volume make up the majority (52%). One in five (19%) settle more than 21% of their current trade volume in renminbi. For the overall sample, on average 12% of overseas trade is denominated in renminbi, 10% for onshore companies and 14% for offshore.

View from China corporates versus overseas MNCs

Onshore corporates settle less of their cross-border trades in the currency than overseas MNCs by a slight margin. Seventeen percent of onshore corporates currently have zero trades denominated in renminbi while 8% of offshore corporates do.

Two-thirds (67%) of onshore treasurers and CFOs settle between one and ten percent of their overseas trades in the currency, compared to 56% of offshore respondents. A greater proportion of offshore corporates instead are settling more than 21% of their trades in renminbi compared to China-based companies (23% compared to 12%). This data suggests that if an overseas corporate does consider settling in renminbi they are more likely to "take the plunge" so to say and do so in larger amounts.

FIGURE 8. **Overseas trade denominated in RMB - China corporates vs overseas MNCs**



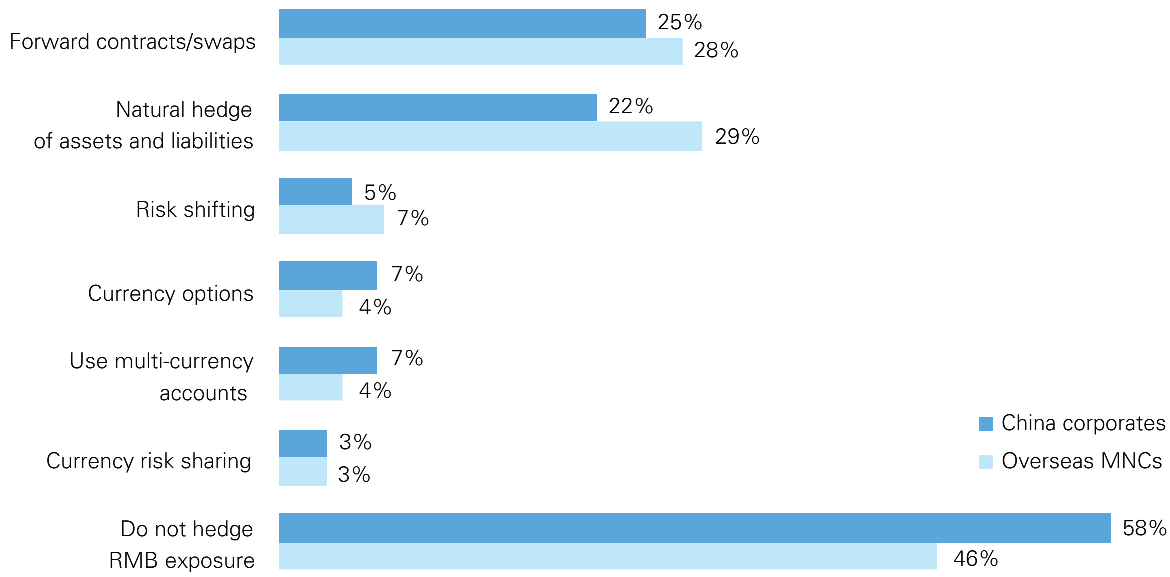
Methods of hedging

Companies are asked how they hedge their renminbi exposure, if at all. Half of the respondent sample does not hedge (51%) as compared to 18% in the first quarter of 2017. The drop in eagerness of treasurers to hedge is probably due to the relative stability of the currency since then. The most common tools used by those who are involved in hedging are forward contracts/swaps (27%) and natural hedging (26%).

View from China corporates versus overseas MNCs

One quarter of China corporates are involved in forwards/swaps compared to 28% of offshore respondents. *"We are cautious; we do some vanilla forwards to hedge our renminbi exposure,"* says a Hong Kong-based treasury manager. More overseas MNCs are involved in natural hedging than their onshore counterparts (29% compared to 22%). "*We have FX which is against the international currencies. I think it will stay more or less the same because we have a policy where we continue to have a certain percent of hedges being done,"* says a Singapore-based treasury director.

FIGURE 9. **Hedging strategies on RMB exposure - China corporates vs overseas MNCs**

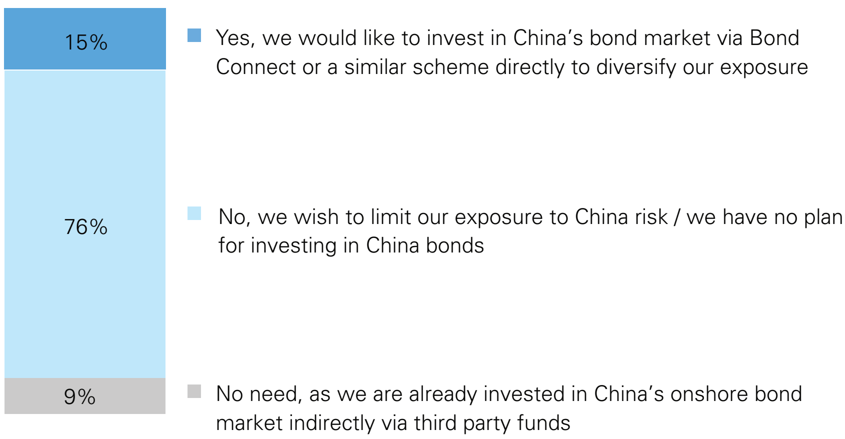


Close to three in five (58%) onshore companies do not hedge their renminbi exposure versus 46% of overseas MNCs. *"It is because we use renminbi in all our bookkeeping therefore there is no reason for us to hedge renminbi risk and but we do hedge other foreign currency risks,"* says a China-based treasury manager. Another treasurer attributes the lack of hedging to the relative stability of the currency compared to recent years. *"Unlike the August 11th [2015] renminbi rate change, when we needed to hedge the foreign currency risk, we currently do not need to hedge our foreign currency risk as before. The overall trend for renminbi is to stabilize,"* he says.

Bond Connect

Offshore firms and MNCs based in China are asked whether they plan to use the Bond Connect which launched in July 2017 giving institutional investors access to China's bond market. About one in six (15%) say they are interested in the scheme or something similar in order to diversify their exposure. The large majority (76%) are not considering it as they either have no plan to invest in onshore bonds or they wish to limit their exposure to China risk. *"We have no business need, once we have cash we pull it out,"* says a Singapore-based CFO that is not interested in the scheme. Another Singapore-based treasury director of an onshore MNC is more positive. *"We'll look at using it in the international market,"* he says.

FIGURE 10. **Do overseas MNCs see the need for a change in policy to give corporates overseas direct access to onshore bonds in China?**



Economic Outlook and Regulations

Following President Xi's goal of "bringing in and going global", one in three respondents expect more business opportunities in China. The concerns among those surveyed for their current China business are renminbi volatility, inability to move capital out of China and regional/international political tensions. Corporates are employing a variety of initiatives to address these issues including FX hedging, expansion of financing channels via cross-border pooling or cross-border financing or opting to hold less renminbi in-country.

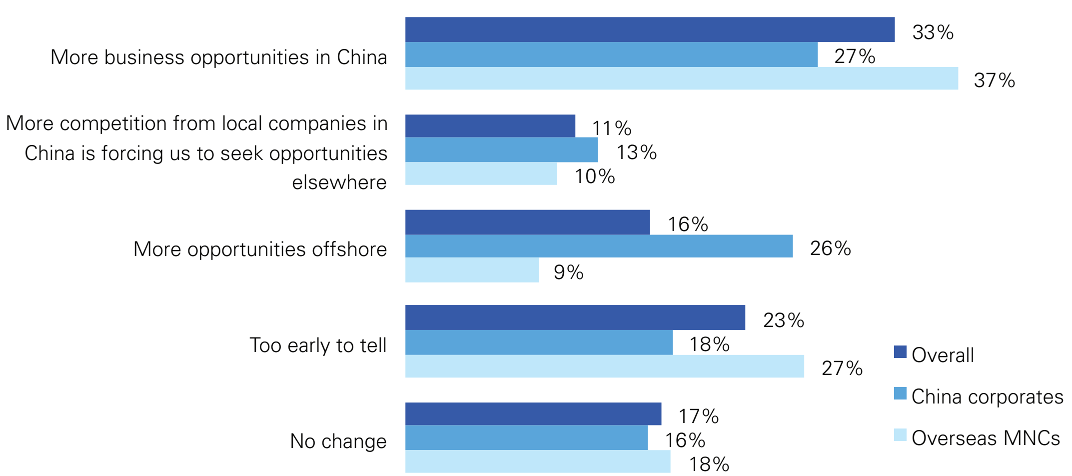
Expectations after the 19th National Congress

Following the October party congress one-third of corporates responding to the survey expect more business opportunities in the country. *"I would think there will be more business opportunities in China and the competition will be stiffer,"* says a treasury director based in Singapore.

One in five (23%) say it is too early to tell what the outcome will be. *"We do not feel the change that early but I think starting from next year March, after the annual meeting of National People's Congress and Chinese People's Political Consultative Conference, there will be changes,"* says a treasury manager in China. *"But the direction of change is still uncertain,"* he adds.

The minority are concerned about more local competition from China companies forcing them to seek opportunities elsewhere (11%). For one treasury executive at a Taiwan corporate that operates a factory in the mainland, China's focus away from manufacturing is affecting them immensely. *"Under the current economic strategy, the government would like to 'get rid of' factories because China is no longer perceiving itself as the world's factory. So, a lot have moved away from China and the policies that were previously favourable have now changed. As a result, competition has intensified,"* she explains.

FIGURE 11. **Corporates' expectation following President Xi's goal of "bringing in and going global"**



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View from China corporates versus overseas MNCs

After the party congress, 27% of onshore corporates expect more business opportunities in China. A similar proportion expect more favourable prospects offshore. *"We expect there will be more opportunities in the offshore market because, after the 19th National Congress, OBOR is more advocated,"* says a deputy finance manager based in mainland China. This sentiment is in line with President Xi's opening remarks at the meeting. He emphasizes both "bringing in and going global" and lists OBOR is a key priority, a point that has not gone unnoticed by China-based respondents.

A significant number of companies based overseas also foresee greater business opportunities in the country (37%). *"I think after the National Congress, our expectation of the market is positive because the China economy has a clearer target and a clearer direction,"* says a Taiwan-based general manager. 27% think it is too early to tell what the outcome will be.

Risks in 2018

Respondents are asked to rank what they see as being the top three China-related risks to their business in 2018. The financial risks facing treasurers are worsening debt and NPL levels and a collapse in the real estate market. *"The debt problem and the worsening NPL levels are surfacing now, as I can see that defaults are more common nowadays. There is some suppression in the real estate activities as well,"* says a treasury assistant based in mainland China. Escalating US-China tensions are another point of concern.

In the previous round, rising leverage and Sino-American tensions were also top of mind for companies with regards to the China economy. However, the third major concern keeping treasurers awake at night was increased capital outflows.

In their forecasts for 2018, finance executives see capital outflows as lower down on their list of risks. Regulation has contributed to the drop in the volume of capital outflows since the first quarter. A general manager based onshore is vocal about the efficacy of the People's Bank of China's (PBoC) measures. *"I don't think the increased capital outflow is a concern because the government is controlling the flow of capital."*

The possibility of a collapse in the housing market has become more salient for CFOs and treasurers as a risk in 2018. *"If there is a crack in the market or a sudden shock in the market, the whole real estate market might actually collapse,"* worries an onshore finance manager. Overseas MNCs are more worried about this risk than in early 2017, with the weighted proportion rising from 18% to 35%. All eyes are on the authorities to prevent speculation by keeping a check on rising land prices and stiffening regulations.

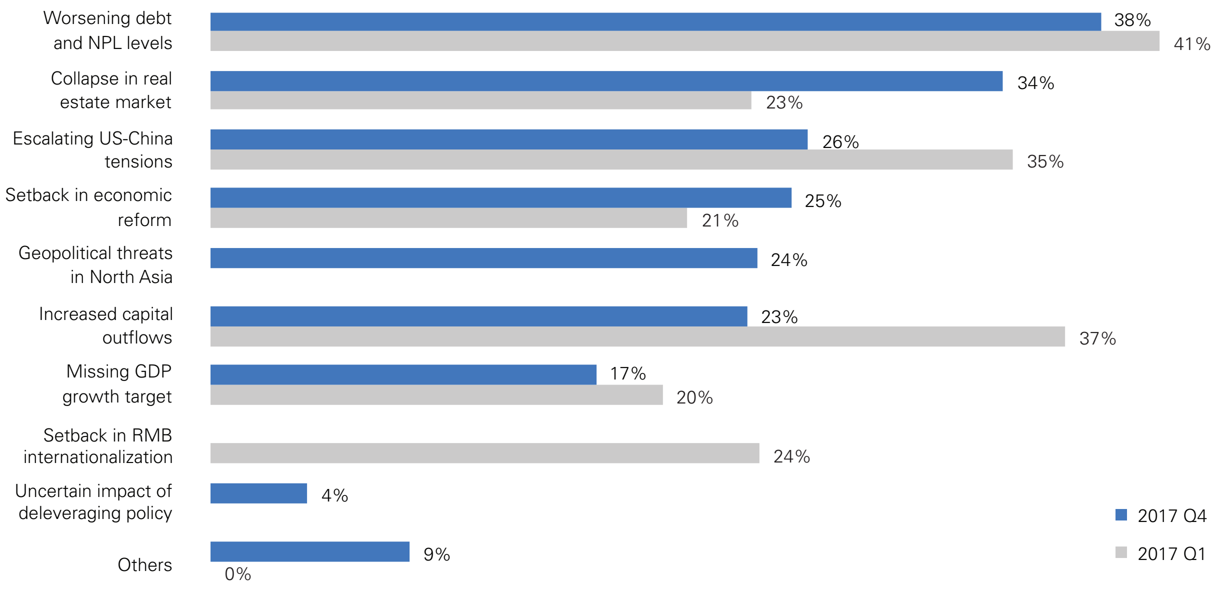
Respondents also view a setback in economic reforms as a point of distress (25% in terms of weighted percentage). *"I don't think either missing the GDP growth target, worsening debt and NPL levels, or a collapse in the real estate market will happen. I think it will be a setback in economic reforms that will be a big risk,"* says a treasury director based in Singapore.

Another answer given by respondents, that is not in the original survey prompt list, is the uncertain outcome of the deleveraging policy in the coming year. Corporates, based primarily on the mainland, have already accounted for government efforts to deleverage, however, they are unsure about the repercussions. *"The impact of deleveraging is still very much unclear,"* says a CFO based in the country.

View from China corporates versus overseas MNCs

China corporates are more bothered about worsening debt and NPL levels than their overseas counterparts, mainly due to the implications on onshore liquidity. A China-based finance manager put it plainly: *"It is getting difficult for us to borrow loans from the banks in China. The short-term tightening policy from the central bank is making the cost of raising capital higher".* As part of a tightening policy bias, the PBoC raised short-term interest rates several times in early 2017. Although the rate increases were modest, the measure reiterated the intention of the authorities to tackle risks in the financial system.

FIGURE 12. **China-related risks - Views for 2017 Q4 compared to 2017 Q1**

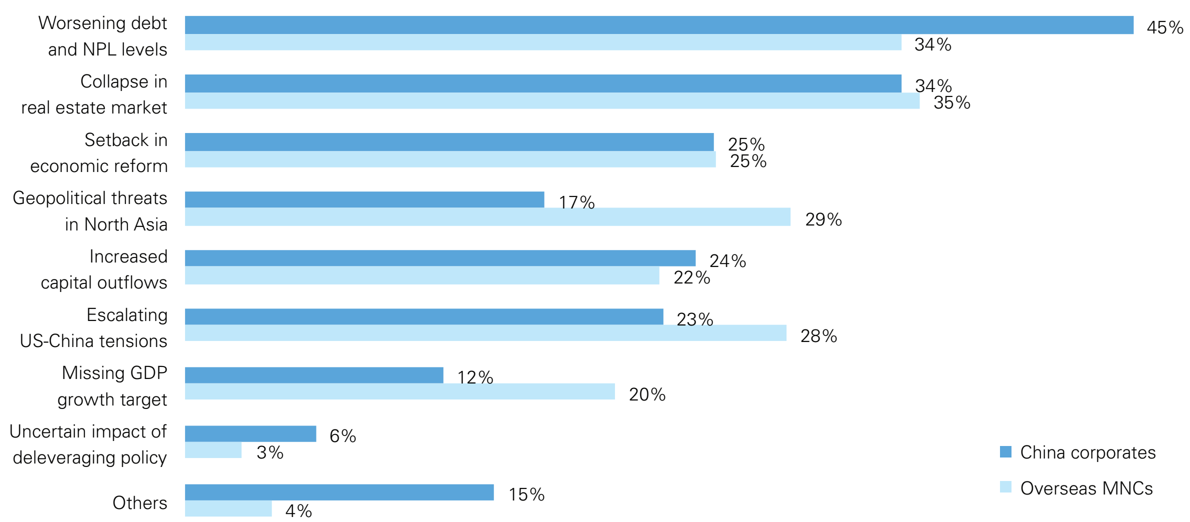


The options "Geopolitical threats in North Asia" and "Setback in RMB internationalization" were not given in last round (2017 Q1) and this round (2017 Q4) respectively.

% are weighted according to the rank of each option provided by respondents

On a relative basis, overseas MNCs are more concerned than onshore corporates about geopolitical threats in North Asia, escalating US-China tensions and missing the GDP growth target. This is somewhat predictable as these macroeconomic factors are likely to have global implications that will impact multinationals to a greater degree. In addition, four in ten onshore companies only operate domestically and so could be less concerned with these external pressures.

FIGURE 13. **China-related risks - China corporates vs overseas MNCs**



% are weighted according to the rank of each option provided by respondents

Current concerns for China business

Respondents are asked what concerns they have for their China business in the current economic environment. The most prevalent concerns are the same as in the first quarter of 2017, namely renminbi volatility, inability to move capital out of China and regional/international political tensions.

The greatest concern corporates have for their business is renminbi volatility (51%). The renminbi fell by roughly 6.5% against the US dollar in 2016, but in the last year the currency has strengthened by more than 6% at its highest point. A Taiwan-based treasury manager that both imports from and exports to mainland China companies explains: *"The increase in wages has made it difficult. And the fluctuation in renminbi rate has also brought concerns to our business operation, especially the recent appreciation in renminbi."* In this context, the stronger renminbi to Taiwan dollar is likely to cause imports from mainland China to be more expensive than before. Additionally, wages to workers onshore are also relatively more costly.

Their inability to move capital out of China is another worry for survey respondents (37%). Since late 2016 the government has imposed limits on the amount of onshore capital that can be transferred to overseas accounts and has ensured Chinese companies aiming to acquire assets overseas are put under greater regulatory oversight. *"The capital controls have hindered our overseas investment,"* says an onshore finance manager. For some, the controls are not as perturbing, viewed as only impacting companies involved in illegal activities such as money laundering or 'fake' outbound investment transactions.

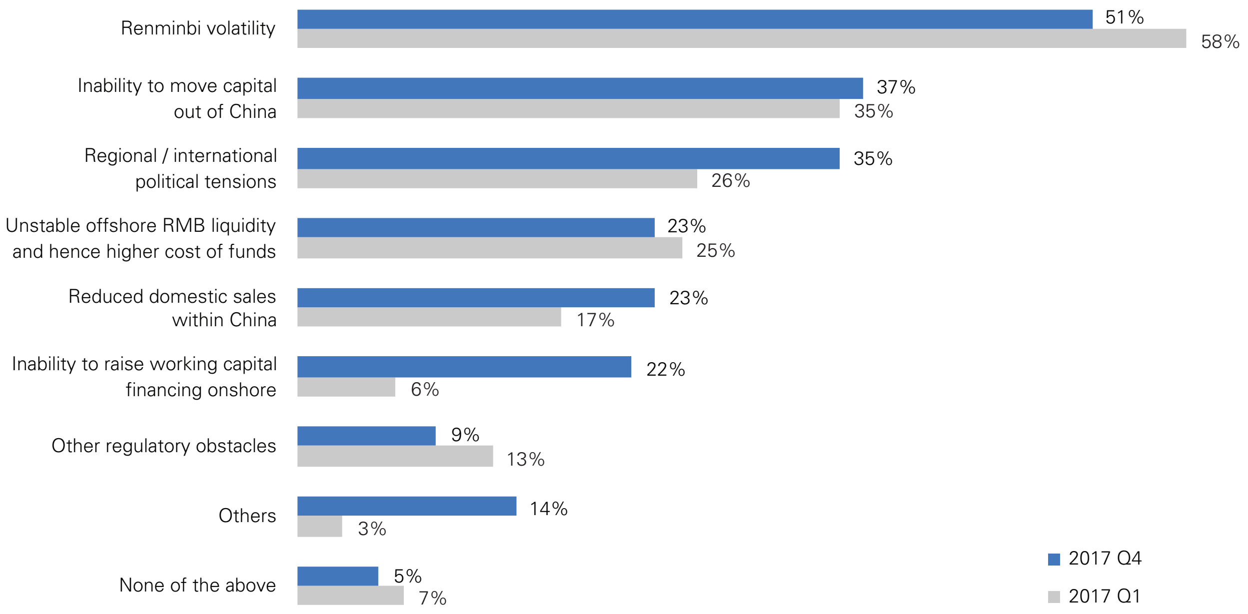
Outside China, treasurers and CFOs hold less renminbi onshore as a result. A Hong Kong-based treasury manager of an Asian corporate explains: *"We try not to keep too much capital in China to avoid the inability to move it out"*. A CFO of a European entity also based in Hong Kong works with the opportunities given to him at any point in time. *"We move capital out when we can simply to avoid trapped cash in case of whatever change in regulations,"* he says.

Regional/international political tensions take third place on the list for corporates participating in the survey. This is a bigger concern for respondents than in the first quarter of last year (35% compared to 26%). An onshore finance manager is not comfortable with Trump's political rhetoric. *"I think although Trump emphasizes getting tough with China during his election campaign, I do believe Sino-US trade relations are unlikely to get disconnected. But there are some uncertainties on this aspect,"* he says. A treasury manager in Singapore is more anxious about the nuclear threat from North Korea. *"I guess there isn't any concern for our business apart from the possibility that North Korea might go to war with other countries."*

Corporate treasurers are also more annoyed about their inability to raise working capital financing onshore than in early 2017 (22% this round compared to 6% last round). This is a new risk that has emerged amongst onshore respondents and is likely to be correlated to the PBoC's tightened monetary policy. The policy means it is more difficult to obtain funding through bank loans and other short-term money market instruments.

One in ten (9%) is irritated by other regulatory obstacles such as stricter regulations on renminbi FX transactions and overall policy uncertainty. *"The biggest problem we have is that the regulations in China are very unpredictable. When we think the regulations will be more relaxed, the authorities remain strict on the regulations for capital outflows. The implementation of various policies has made us a little confused,"* says an onshore finance manager.

FIGURE 14. **Concerns for China business in the current economic environment - Views for 2017 Q4 compared to 2017 Q1**



By business interactions

Renminbi volatility is the top concern for most China respondents in the current environment when split by business interactions, save for domestic companies. For domestic companies that are mainly buying and selling within China, the worry instead is a reduction in domestic sales. This is logical considering these firms deal with local suppliers and buyers thus are less likely to be impacted by currency movements than those interacting with offshore counterparts.

Unstable renminbi liquidity hence a higher cost of funds is also a concern for China-based importers, exporters, and those who both import from and export to overseas companies in the current environment. For inter-company firms mainly buying and/or selling to their overseas subsidiary as well as domestic firms, the inability to move capital out of China is a worry.

TABLE 1. **The top concerns from China corporates by their business interactions with overseas, in the current economic environment - Views for 2017 Q4 compared to 2017 Q1**

Importer	•60% (43%) Renminbi volatility •50% (29%) Unstable offshore renminbi liquidity and hence higher cost of funds •50% (14%) Regional / international political tensions
Exporter	•100% (56%) Renminbi volatility •60% (11%) Unstable offshore RMB liquidity and hence higher cost of funds •40% (28%) Inability to raise working capital financing onshore
Both	•65% (74%) Renminbi volatility •29% (32%) Unstable offshore renminbi liquidity and hence higher cost of funds •29% (23%) Regional / international political tensions
Inter-company	•100% (57%) Renminbi volatility •100% (50%) Inability to move capital out of China •50% (36%) Regional / international political tensions Reduced domestic sales within China
Domestic	•37% (18%) Reduced domestic sales within China •37% (14%) Inability to move capital out of China •26% (14%) Regional / international political tensions

Percentages in ( ) refer to 2017 Q1 figures

For the most part, overseas MNCs that import from mainland China, export to the country, and those that do both are concerned with renminbi volatility and regional/international political tensions. Firms that export to mainland China companies and those that buy and/or sell to their China subsidiary are also worried about how to get their capital out of the country.

TABLE 2. **The top concerns from overseas MNCs by their business interactions with China, in the current economic environment - Views for 2017 Q4 compared to 2017 Q1**

Importer	•73% (50%) Renminbi volatility •36% (50%) Regional / international political tensions •36% (25%) Inability to move capital out of China
Exporter	•71% (92%) Renminbi volatility •29% (33%) Inability to move capital out of China •29% (17%) Regional / international political tensions
Both	•44% (59%) Renminbi volatility •36% (44%) Regional / international political tensions •32% (33%) Unstable offshore RMB liquidity and hence higher cost of funds
Inter-company	•62% (74%) Inability to move capital out of China •52% (67%) Renminbi volatility •43% (22%) Regional / international political tensions

Percentages in ( ) refer to 2017 Q1 figures

Initiatives to cope with situation

CFOs and treasurers are employing a variety of initiatives to cope with the concerns they have for their China business in the current environment. The most common tactic for those who are worried about renminbi volatility is the hedging of their FX exposure either by natural means or using forward contracts or other derivative instruments. *"We will make good use of the financial derivative products and other hedging instruments, to hedge the risk of FX volatility, in order to control costs,"* says one deputy finance manager in China.

Companies that are unable to raise sufficient working capital financing onshore are brainstorming ways to expand their financing channels by getting involved cross-border pooling or cross-border financing. They are employing methods such as implementing a two-way renminbi cash pool or issuing USD-denominated bonds. For one treasury manager in China the capital raising goes hand in hand with the hedging requirement. *"We have issued corporate bonds and USD bonds to raise capital offshore. Because we also have a large volume of exports, we have to use some USD bonds to hedge our foreign currency exposure,"* he says.

Overseas MNCs that are concerned with their inability to move capital out of China are opting not to hold large amounts of renminbi in the country. Onshore firms with this problem are more restricted in their ability to act. *"For the capital controls, the only way we can cope is to comply with the authorities' requirement,"* says one onshore treasury manager.

Companies that are concerned with a drop in domestic sales in China are choosing to diversify either by getting involved in other industries, expanding to other countries or deprioritizing China as a market. *"We are extending our business to other East Asian markets so we do not put all our eggs in one basket,"* says one Taiwan-based accounting manager.

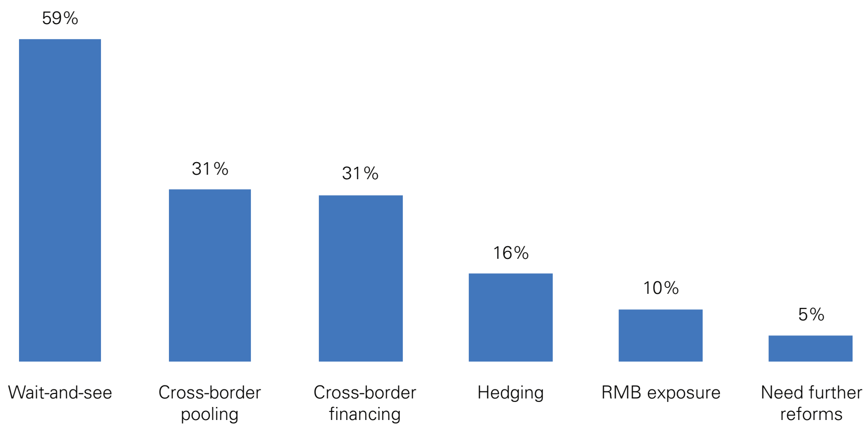
Plans in view of risk reserve requirement relaxation

In early September the PBoC relaxed the risk reserve requirement for trading foreign currency forwards. Under the previous rules, financial institutions were required to set aside 20% of the renminbi forwards settlement amount from the month before as foreign exchange risk reserves.

The move has led to a drop in the cost of forward trading activities for banks and their clients thus acting as a positive signal for FX deregulation. In view of this relaxation and the more favourable environment for cross-border outflows, most CFOs and treasurers are in a wait-and-see mode to get a better sense of renminbi trends and related policy outlook (59%).

Three in ten are engaging in cross-border pooling or cross-border financing (31% for each). *"We are considering the cross-border financing but we do not know how to start,"* says an onshore general manager. For a Hong Kong-based financial controller, the motivation for resuming cross-border pooling is not predicated on this policy change but its broader implications. *"We will not react to this policy too much. We have a cash pool in which the capital is more liquid. Basically, it is just because in the past one or two years, capital outflow was restricted so we did not use it. But if there is a more favourable environment for cross-border outflows, we will use it again."*

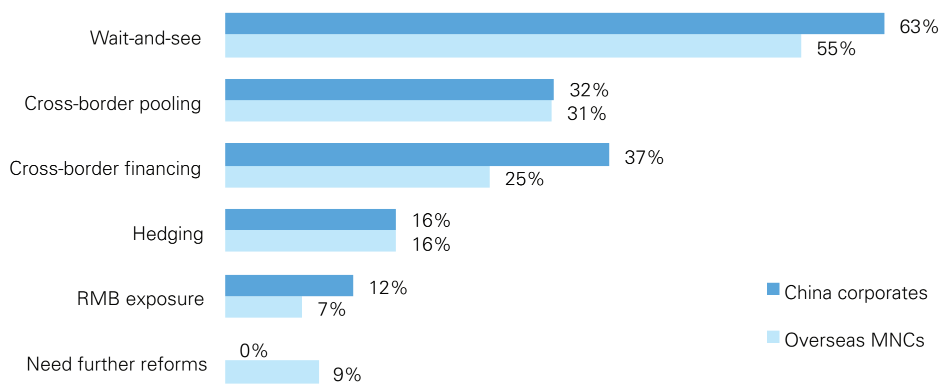
FIGURE 15. **Plans from corporates in view of the recent relaxation in regulations relating to risk reserve requirements**



View from China corporates versus overseas MNCs

China corporates are more likely to engage in cross-border financing given the recent relaxation in regulations than their overseas counterparts (37% compared to 25%). One in ten overseas MNCs need to see further regulatory reforms before they can act whereas no onshore companies have this need. A treasury director based in Singapore that is in the wait-and-see camp with regards to cross-border pooling is unsure about the regulatory environment. *"We're adopting a wait-and-see strategy. It's a bit unpredictable. We have chosen not to do pooling yet purely because we think it's a rather unstable market. If you do pooling and tomorrow they stop it then it doesn't really help. Then all our efforts will have been to waste. So, we'd rather do something that is more feasible and predictable,"* he says.

FIGURE 16. **Plans from corporates in view of the recent relaxation in regulations relating to risk reserve requirements - China corporates vs overseas MNCs**



One Belt, One Road

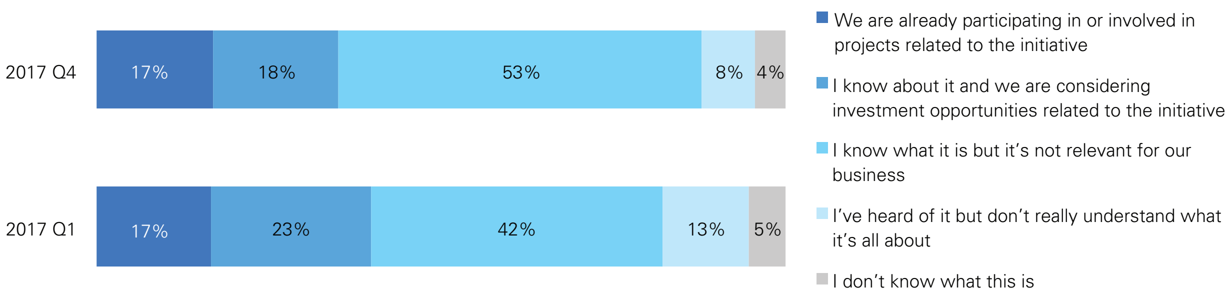
The majority of companies surveyed are aware of the development strategy proposed by the Chinese government. CFOs and treasurers expect the main effects of OBOR in the next two to five years to be a boost in infrastructure investments, an increase in renminbi usage, and the enhanced economic power and influence of China internationally. In terms of information and product support they require to better help them understand and explore opportunities related to the OBOR initiative, CFOs and treasurers prefer guidance on local regulatory, tax, legal and cultural practices and requirements, country/geopolitical/industry related risk index and information for OBOR corridors, and funding solutions.

Level of awareness of One Belt, One Road

One Belt, One Road (OBOR) is the development strategy proposed by the Chinese government that focuses on economic co-operation among countries along the land-based Silk Road Economic Belt and sea-based 21st Century Maritime Silk Road. The initiative aims to connect Asia, Europe and Africa and build six international economic co-operation corridors, namely the New Eurasia Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar.

The majority of companies surveyed are aware of OBOR. Seventeen percent of CFOs and treasurers are participating in projects related to OBOR this round and roughly an equal proportion are considering investment opportunities related to the initiative. Over half (53%) know what the initiative is, but say it is not relevant to their business. Compared to early 2017, the proportion of respondents that either do not understand the initiative or are not aware of it, has decreased (from 18% to 12%).

FIGURE 17. **Level of awareness of OBOR**



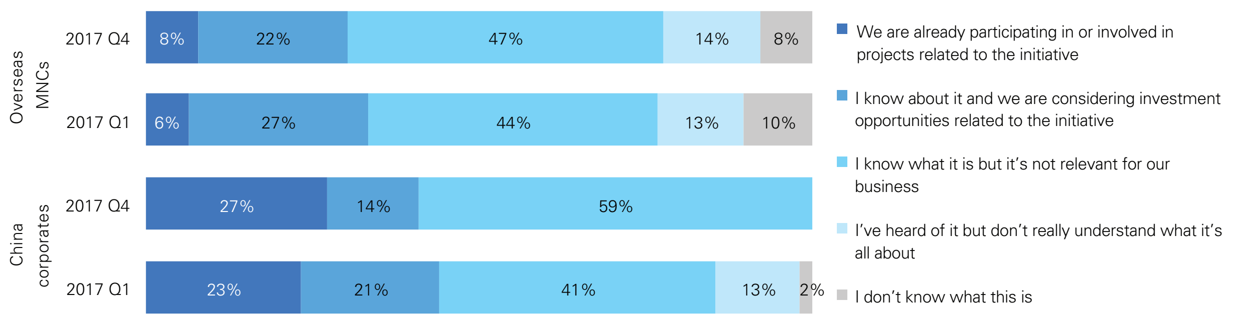
View from China corporates versus overseas MNCs

Two-fifths of China-based corporates and three in ten overseas MNCs and are either participating in the OBOR initiative or considering investment opportunities related to it. This breakdown is similar to the statistics from early 2017 with just a marginal drop in terms of proportion. An encouraging sign is that more corporates are already participating in the OBOR initiative than were in the first quarter of 2017 both among China-based companies as well as overseas MNCs.

However, for both groups, the percentage considering investment opportunities related to the initiative has dropped since early last year. *"We are aware of the initiative but we are not involved in many projects because now many projects are Central Asia and Europe. Unless there is a surge of business in South East Asia, it will be hard for us to get involved in the initiative"* says a Taiwan-based manager.

Even if they do not participate, onshore corporates are much more clued in about what the initiative is than in the previous round. None of the onshore CFOs and treasurers that responded to the survey do not understand OBOR or are not aware of the initiative. Perhaps this points to an increase in the level of education or popularization of the strategy in the media over the past year.

FIGURE 18. **Level of awareness of OBOR - China corporates vs overseas MNCs**



Industries and countries of interest

In terms of exploring business opportunities related to OBOR, close to one-fifth (18%) of respondents that gave an industry, named the industrials and manufacturing sector as a point of interest. 16% are looking to materials and energy and mining sectors and one in ten (11%) are focusing on logistics and courier services.

TABLE 3. **Industries of interest in business opportunities related to OBOR**

18%	• Industrials and manufacturing
16%	• Materials • Energy and mining
11%	• Logistics and courier
9%	• Financial services
7%	• Automotive • Agriculture

The most popular regions that companies are considering for OBOR opportunities include Southeast Asia, Europe, Central Asia and Africa. The countries that the CFOs and treasurers are considering in the order of highest number of mentions include India, Indonesia, Malaysia, Vietnam and Kazakhstan.

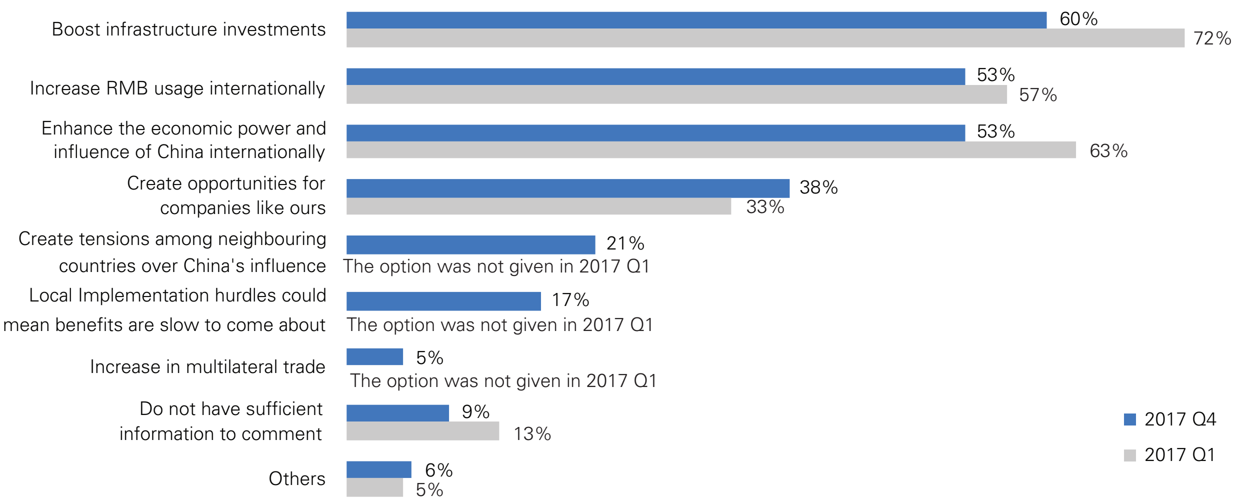
Expectation of effects of One Belt, One Road

As in the first quarter of 2017, CFOs and treasurers expect the main effects of OBOR in the next two to five years to be a boost in infrastructure investments, an increase in renminbi usage, and the enhanced economic power and influence of China internationally. Despite it being the most popular option, only three-fifths of the respondent sample expect a boost in infrastructure investing this round compared to 72% early last year. A greater percentage of respondents than in the previous round expects that the OBOR initiative will create opportunities for their own company (38% compared to 33%). Five percent of CFOs and treasurers also expect an increase in multilateral trade, an option that is not on the original survey prompt list.

Although a small number of onshore respondents view the OBOR strategy as China's method of dealing with its industrial overcapacity, the indirect impact on the economic development of neighbouring countries is not in question. *"So far, we do not rely on the Belt Road initiative. However, I think it will help in a way that these countries will develop faster, especially in infrastructure. Consequently, our products will be in demand,"* says a CFO of an onshore materials company. The treasurer of a China-headquartered technology company is also convinced of the benefit: *"It will bring economic growth and development to the various countries. With that it will bring people's requirements on laptops, computer hardware and whatnot."*

One in five respondents (21%) are concerned that OBOR will create tensions among neighbouring countries over China's influence and 17% believe local implementation hurdles could mean that benefits are slow to come about. Respondents also have concerns from an investment angle due to the current opacity of the process. *"I think in general it has been tough for foreigners to invest in China. So, I do not see how the OBOR can work out. The theme of the whole thing is great but it has not convinced me that how it will protect the foreign investors when they enter the market. I think it still needs more transparency,"* says one Hong Kong-based treasury manager.

FIGURE 19. **Expectation of the effects of OBOR in the next two to five years - Views for 2017 Q4 compare to 2017 Q1**

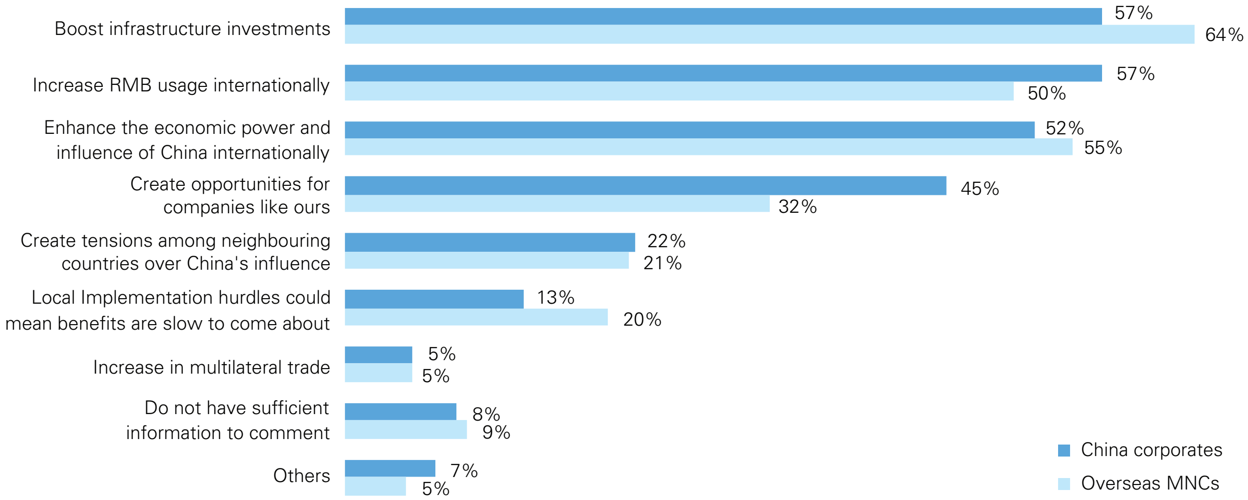


View from China corporates versus overseas MNCs

Predictably, China corporates are more likely than overseas MNCs to expect the OBOR initiative to create opportunities for companies like theirs (45% compared to 32%). Onshore CFOs and treasurers are also more likely to expect an increase in renminbi use internationally as a consequence of the development strategy. *"For now, there are not many companies using renminbi for trade settlement internationally, but I believe eventually renminbi will be more popularly used,"* says an onshore treasury manager.

Offshore companies have a stronger belief that OBOR will boost infrastructure investment than onshore corporates (64% compared to 57%). *"As I can see the investment projects are mostly related to the infrastructure construction,"* says one treasury manager based in Taiwan. One in five overseas MNCs expect that local implementation hurdles will be an issue compared to just 13% of China respondents. *"I think a lot of regulatory* *issues will arise from One Belt One Road. The concept is very good but the implementation is difficult,"* says a financial controller based in Singapore.

FIGURE 20. **Expectation of the effects of OBOR in the next two to five years - China corporates vs overseas MNCs**



Information and product support for opportunities related to One Belt, One Road

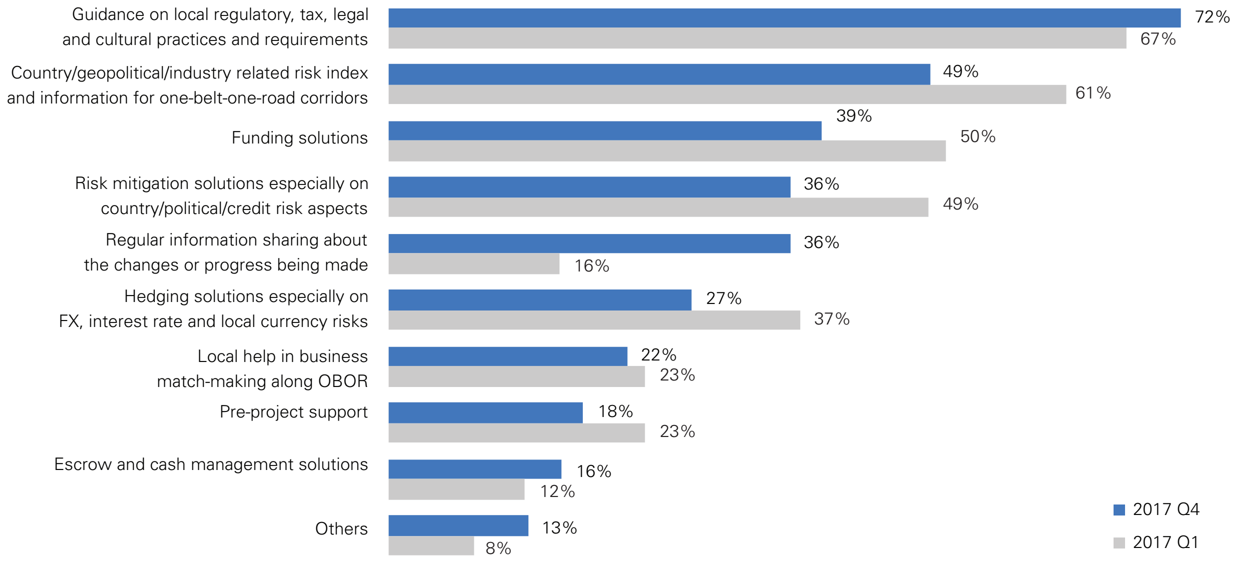
When asked what kind of information and product support they require to better help them understand and explore opportunities related to the OBOR initiative, CFOs and treasurers have similar needs as in early 2017. Guidance on local regulatory, tax, legal and cultural practices and requirements, country/geopolitical/industry related risk index and information for OBOR corridors, and funding solutions are top of mind.

"We are very much interested in guidance on cultural practices and the cultural history of those countries because we feel that there is limited information on this. Many times, the information is gathered by our own effort," says a CFO based in China. A finance director that is in the country sees value in risk information: *"We are more concerned with information that can help us understand the business environment and the political risks in those countries,"* he explains.

More respondents in this round find that regular information sharing about changes or progress being made on the OBOR strategy is useful than in the first quarter of the year (36% compared to 16%). *"I think what we need to know is how much the PRC is supporting the particular country covered by the OBOR. We are more interested in the Chinese government's views on the projects that are of concern,"* clarifies a deputy finance director. A treasury manager based in Hong Kong finds the bank's involvement in this regard as particularly vital. *"The on and off talks and seminars offered by banks are really helpful and useful for us,"* he says.

Few see hedging solutions particularly on FX, interest rate and local currency risks as valuable as compared to the first quarter of 2017 (27% compared to 37% in last round). Perhaps this is because the currency has stabilized since the first quarter of the year or hedging tools have become more widely available and are supported by recent regulatory reforms.

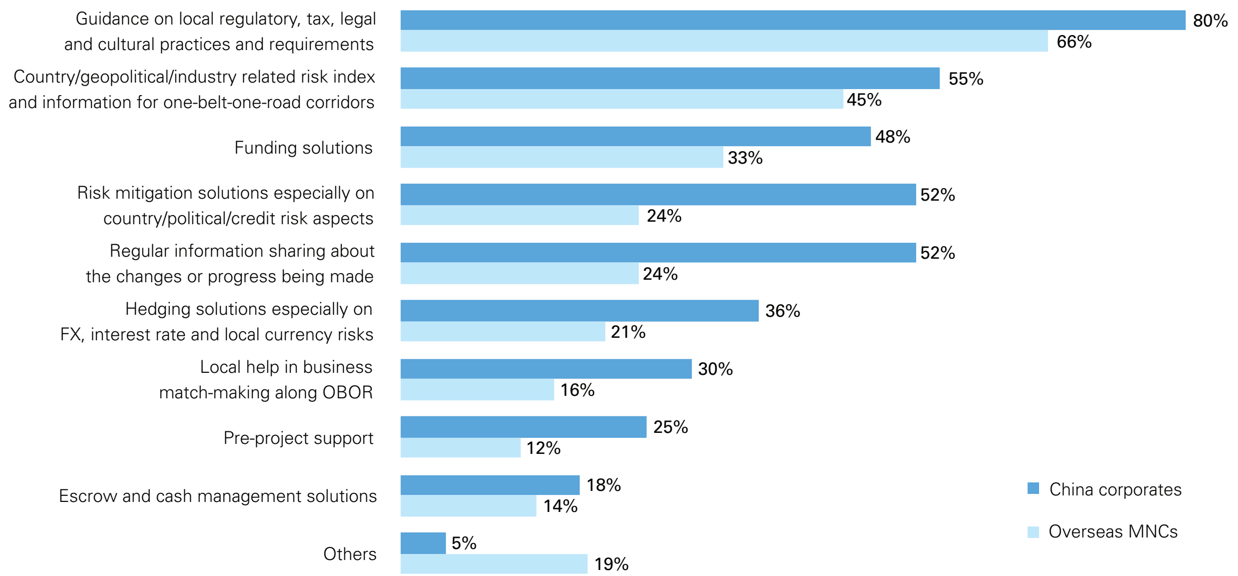
FIGURE 21. **Information and product support needed for better understanding and exploring opportunities related to OBOR - Views for 2017 Q4 compare to 2017 Q1**



View from China corporates versus overseas MNCs

Onshore companies are more eager to receive advice on OBOR than their overseas counterparts. The information and support they need is mainly related to better understanding target countries and their opportunities. Over half (52%) would find risk mitigation solutions on country/political/credit risk aspects and regular information about the changes or progress being made helpful.

FIGURE 22. **Information and product support needed for better understanding and exploring opportunities related to OBOR - China corporates vs overseas MNCs**



Conclusion

The macroeconomic environment that CFOs and treasurers are facing in China is changing rapidly. The government aims to tackle the country's ballooning debt, a possible collapse in the real estate market as well as geopolitical threats in the Korean peninsula and South China Sea. At the same time the recent appreciation in the renminbi as well as regulatory reforms with regards to the relaxation of the risk reserve requirement and reactivation of cross-border pooling is creating a more favourable environment for cross-border flows. The launch of Bond Connect in July 2017 has also made waves among treasurers seeking to diversify their exposure by investing in China's bond market.

Asset Benchmark Research's 2018 China Business Outlook has shed light on the outlook that CFOs and treasurers have for the China economy as well as the major pain points and priorities they have for their China business. It has elucidated respondents' plans and expectations for the One Belt, One Road initiative and their planned activity in offshore renminbi products. In the future, given China's importance on the world stage and the renminbi's potential rise to become a global currency in trade and investment, these topics and their implications can only grow in importance.

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