

# China - Pre-eminent Global Supply Chain Partner

By Amita Jhangjani, Asia Pacific Trade Head,  
Citigroup Corporate and Investment Banking

As it expands its presence and influence around the world, China is becoming a major participant in international commerce and a preeminent partner in the global supply chain.

Go to any conference or meeting among companies anywhere in the world and a question will soon arise: "What's your China strategy?" Another prominent phrase heard along corporate corridors these days is "supply chain management." Here, again, China is playing a prominent role, both as a supplier and, increasingly, as an end user. As it expands its presence and influence around the world, China is becoming a major participant in international commerce and a preeminent partner in the global supply chain. It is also establishing itself as a prototype for emerging markets worldwide, which, following China's leadership, seek the economic benefits of active participation in the global marketplace.

## Trading giant

China has already achieved great economic success in a short time. Especially over the past decade, the country has grown explosively primarily because of the rapid expansion of international trade and the migration of manufacturing (mainly, but not only, from the rest of Asia) to China. As a result, China's importance in the global supply chain has grown tremendously.

According to the US Department of Commerce and the International Trade Commission, US-China trade increased



nearly fivefold from 1995 to 2005, rising from \$57.5 billion to \$285.3 billion, as did China's global trade, which jumped from \$280.9 billion to \$1.4 trillion during the same period.

Its overall economic prospects are just as remarkable. Citigroup expects the world's largest emerging market economy to post GDP growth of 7.5 percent per year over the medium term. In the next 20 years, the Cato Institute forecasts that China could surpass Japan as the world's second largest trading nation and could emerge as the world's biggest economy between 2020 and 2030.

## The global supply chain

To succeed in the global marketplace, China—and all economies around the world—must engage in cross-border collaboration on an unparalleled scale. The primary instrument for this cooperation is the global supply chain.

Technology has equalized the world of commerce to such an extent that the smallest sub-assembler in an emerging market economy has the same speed-of-light access to financial and market data and identical entrée to cost-effective sources of liquidity as the world's largest companies. The resultant transparency benefits

participants across the global supply chain by mitigating risk, improving efficiency, and generally facilitating the cross-border flow of goods and services.

In recent years, most companies have seen the emergence of two supply chains in their organizations: the physical chain, which encompasses the entire procurement process (i.e., ordering, manufacturing, shipping, logistics, and distribution), and the financial chain, which includes purchase order finance, pre- and post-shipment finance, supplier finance, forfeiting, receivables purchasing, channel finance, and distribution finance.

The two chains have developed at separate rates. Sophisticated technology drives the physical supply chain at every step, whereas the financial supply chain remains largely tradition-bound, relying, for example, on historically popular labor-intensive payment methods like letters of credit. Global market forces however are diminishing the physical/financial supply chain dichotomy within companies. Because the extremely competitive marketplace places a high premium on operating efficiencies, leading to a more streamlined management of the financial supply chain, the physical and financial supply chains are increasingly being pressured to perform in sync.

As China's prominent role in the global marketplace continues to grow—and with

it the responsibilities of World Trade Organization membership—the thousands of exporters and importers operating in China will benefit from the dynamic transformation of the global supply chain. Chinese importers, like their counterparts around the world, will view their supply chains as premier corporate assets. By being “vertically aware” of their supply chain partners—conscious of and alert to their suppliers' financial conditions, for example—Chinese importers will improve visibility throughout the purchasing cycle and reduce risk.

Chinese suppliers and vendors will also benefit from the growing importance of the global supply chain. Because of technological advances on a global scale, they will have financial information about importers, pre- and post-shipment funding sources, and competitive intelligence to a degree previously unavailable to them. This improved end-to-end transparency likewise leads to more efficient risk management.

### Getting started

Companies considering importing and exporting to and from China should keep a number of points in mind.

China regulates its foreign exchange flows tightly via the State Administration of Foreign Exchange (SAFE). Foreign exchange flows related to import and export trade, as well as any form of trade-based import or

### Renminbi Draft Discounting Programs

A major challenge for foreign trading companies in China is obtaining tightly controlled and expensive renminbi (RMB) financing. RMB draft discounting programs provide cheaper, faster, and more efficient financing than RMB loans. Under these programs, buyers pay sellers with endorsable drafts that are presented to banks for immediate, discounted payment.

Funds can be obtained in as little as one day thanks to clear laws, minimal documentary requirements, and simple processes. China's RMB draft discounting market is huge; Shanghai alone accounted for \$21 billion in outstanding funds as of June 2006. For foreign companies seeking trade finance in the China market, RMB draft discounting programs offer an obvious, solid solution.

export financing and repayments, are required to follow specific SAFE regulations. These regulations require the submission of various documents, and foreign companies work closely with their banks in China to comply and submit the appropriate documentation for trade-related payments into and out of the country.

Foreign companies operating in China, or trading with entities in China, also need quick and easy access to low cost financing. Financing can be in US dollars and in China's currency, the renminbi (RMB). For example, a subsidiary or joint venture in China will want access to low-cost financing for its operations in China. It will also want to make sure that its manufacturers and vendors have access to financing to ensure viability of the supply chain.

To resolve this need, companies can obtain loans or, more commonly, use RMB draft discounting programs, which are offered by many banks in China.

One challenge that companies need to be aware of is that PRC regulations stipulate that local currency letters of credit may be valid for a maximum of 180 days. Alternatively, companies can obtain US dollar-denominated import letters of credit.

As regulations and documentary requirements are subject to change and can be open to interpretation, it is important for companies to work with a bank that has a strong local presence and has gained experience serving a sizeable trade customer base. The bank should also have a RMB currency license, allowing it to provide local currency cash management and trade services in major cities across China. Most foreign banks have gained RMB currency licenses only after years of operating in China.

### A smoother future

As China's economy and its global trade

continue to expand, the country's importance in the global supply chain will also grow. Technological advances should help companies make their supply chains more efficient and reduce risk. Though the dual financial and physical supply chains are beginning to merge within many companies, the services of international banks located in China can make the financial supply chain operate more smoothly for companies new to the China trade.

#### ABOUT THE AUTHOR:

Amita Jhangiani  
Managing Director  
Regional Trade Head, Asia Pacific  
Global Transaction Services  
Citigroup Corporate and Investment  
Banking

Amita Jhangiani is the Regional Trade Head, Asia Pacific, for Citigroup's Global Transaction Services. She is in charge of Citigroup's trade services for corporate and financial institution clients across 18 countries in Asia Pacific, based in Hong Kong.

Amita joined Citigroup as GTS Asia Pacific Trade Head in January 2006. Amita worked previously with Deutsche Bank as Regional Head Trade and Interest Currency Mgt from 2000-2005, and with Chase Manhattan Bank from 1984-2000 in various positions in India, Hong Kong and Singapore.

Amita graduated from Yale University, Law School with an LLM, University of Bombay Government Law College with an LLB (Honours), and St Xaviers College in 1978 with a Bachelors of Arts (Honours). India.



Citigroup Corporate and Investment  
Banking  
Global Transaction Services  
39/F Citibank Tower  
3 Garden Road  
Central, Hong Kong