

## China Trade – A Look to the Future



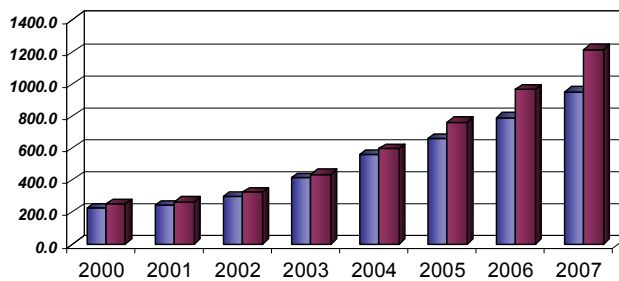
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## China Trade Volume

Trade Volume (USD billion)

Source: China Customs



	2000	2001	2002	2003	2004	2005	2006	2007
Import	225.1	243.6	295.2	412.8	561.2	660.0	791.5	955.8
Export	249.2	266.1	325.6	438.2	593.3	762.0	968.9	1218

- ▶ China ranked **3rd** in the world in terms of trade volume since 2004 (behind US and Germany).
- ▶ 2007 China's exports and imports surged **25.7%** and **20.8%** respectively.



## China Trade Facts

Source : China Customs

### China

**Top 5 import partners:** Japan, EU, ASEAN, ROK, Taiwan

**Top 5 export partners:** EU, USA, Hong Kong, Japan, ASEAN

**Canada ranks 10th**

**Key import products:** machinery and equipment, oil and mineral fuels, plastics, optical and medical equipment, grain, textiles

**Key export products:** machinery and equipment, garments, plastics, iron and steel,

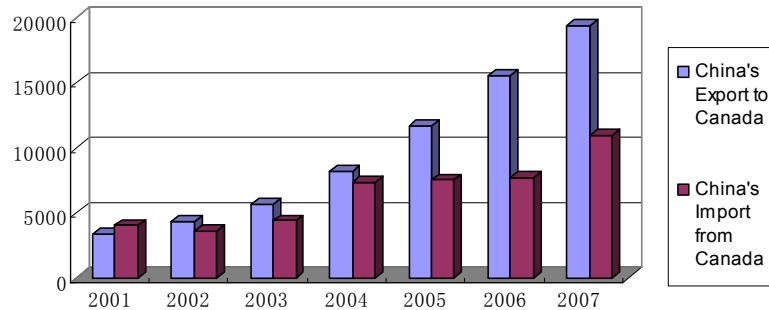
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## China- Canada Trade Facts

Trade Volume USD'M

Source: China Customs



USD'M	2001	2002	2003	2004	2005	2006	2007
Export	3346	4305	5633	8162	11654	15517	19397
Import	4028	3627	4375	7354	7512	7667	10980

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## China- Canada's Trade Facts

- ▶ **In 2007**
  - China is Canada's 2<sup>nd</sup> largest trading partner
  - Canada is China 's 11<sup>th</sup> largest trading partner
  
- ▶ **China's key import products from Canada:** mechanical and electrical products, grain, fertilizer, paper pulp, and paper.
  
- ▶ **China's key export products to Canada:** mechanical and electrical products, garments, textile, shoes, plastic products, toys and suitcases.

Source: Xinhua , China Customs, Chinese Embassy Canada

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## Key Trade Challenges in China

- ▶ Trade disputes with the US & EU
- ▶ Growing pains
  - Pollution
  - Labour cost surge
  - Migration of production facilities
- ▶ Foreign exchange control and RMB appreciation
- ▶ Loan growth restrictions
- ▶ Local regulations
  - Value added tax rebate reduction
  - Labour law

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## Impact of RMB Appreciation on China Trade

- ▶ Exchange rate RMB is not a freely convertible currency, which can only be traded in mainland China

- RMB has appreciated by 17% since July 2005 (exchange rate: 8.2765, July 2005)
- As of 15 July 2008



= 6.8320 x



- ▶ Major impacts:
  - Production costs increase
  - Reduced exports due to reduced competitiveness in price
  - Shrunk profitability of companies producing low value-added products
  - Lower costs for companies with strong demand for imports
- ▶ Potential changes:
  - Increase in imports
  - Shift of export to domestic sales
  - Increase in added-value of export products
  - Increase in export price to transfer the negative pressure of RMB appreciation
  - Changes of settlement model/currency

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## Recent Loan Restrictions

- ▶ During 2007, the China central government took a series of actions to slow the pace of economic growth.
  - Interest rates were increased 6 times
  - Statutory deposit reserve to be kept by banks with PBOC increases 10 times
  - The central bank has commented on using “innovative” methods to withdraw liquidity from market - including the use of USD200bn of special bonds
  - Increased restrictive regulations in some sectors such as environmental unfriendly industries
  - A reduction in the export tax rebate
  - Increase control over fixed asset investment
- ▶ The government continued to issue a series of regulations on single borrower limit, pricing for RMB loans, exchange control, property lending, legal framework etc.

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## Impact of VAT Rebate Reduction in China

- ▶ Announced in June 2007 to slow down the export growth in a manageable fashion
- ▶ Industries being impacted:
  - High polluting, energy / scarce natural resource consuming industries
  - Goods of low added value
  - Goods easy to stir international trade disputes
- ▶ Potential effects:
  - Production costs for export products increase
  - Reduced export activity and shift towards domestic sales
  - Use of off-shore arms (intra-group transactions) for export
  - Utilization of free trade zones
  - Shift from contract manufacturing to toll manufacturing
  - Increase in imports

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## HSBC's Presence in China

- ▶ A continuous presence in China since 1865
- ▶ Locally incorporated since April 2007 with the largest network among all foreign banks in China
- ▶ A full service commercial bank with licenses to provide comprehensive RMB and foreign currency services
- ▶ 69 branches and sub-branches in 17 key commercial cities
- ▶ More than 5,000 staff in the branch network, 98% recruited locally

- Regions of focus
- Cities with branches and sub-branches
- Cities with branches only



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## Awards & Recognition

- ▶ Our service quality and commitment to China are recognised by peers and customers:



PRICEWATERHOUSECOOPERS

Ranked No.1 in trade finance by financial institutions

Pricewaterhouse Coopers survey for Foreign Banks in China  
2005, 2007, 2008 (1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> surveys)



Best Corporate/Institutional  
Internet Bank in China  
2007  
*Global Finance*



Best International Trade Bank  
in China  
2008  
*Trade Finance*



Best Trade Finance Bank  
2003 – 2008  
*Cargonews Asia*



Best Trade Finance Bank in Asia  
2003 – 2008  
*The Asset*



Best Trade Finance Bank  
1997 – 2007  
*FinanceAsia*

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# In Conclusion...

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