
LC VIEWS

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CHINA'S TRADE FINANCING MENU

LC VIEWS' MISSION

To facilitate understanding of the LC matters for promoting LC-based international trade for accelerating economic development.

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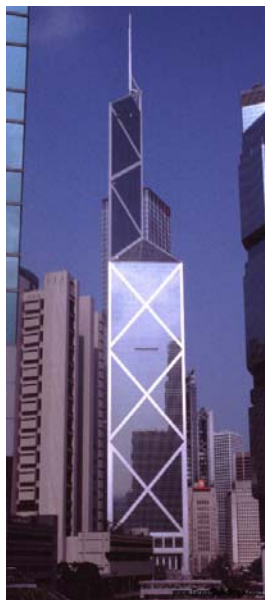
Journey through China's Financial market

TRADE FINANCING MENU FOR FAST ECONOMIC GROWTH

By **Ji a Hao**, Bank of China, **Frankfurt**



Bank of China recently exported its brilliant LC specialist Jia Hao to its office in Frankfurt's financial market in order to import more profit



Bank of China dominates China's Trade Finance Market

...Financial services largely facilitate China's export and import that are accelerating China's economy

Menu of China's trade financing services

China's banks are providing a variety of trade financing products and arrangements for traders in order to satisfy customers' financial needs at diverse levels. These financial services largely facilitate China's export and import that are accelerating China's economy. We may list some trade financing services available in different stages of transactions.



China – a Dragon economy in whose characteristic fast growth export trade has played a significant contributory role. Trade finance fuels export promotion.

i) Packing Loan: A pre-loading short-term financing, offered by the local bank to the exporter who has received qualified letter of credit, to support the exporter to implement the contract, namely to enable the exporter to purchase, prepare the material, produce and effect delivery as scheduled. It is the specific financing arrangement for the beneficiary of a letter of credit, who should hold enough relating credit line in the bank.

ii) Export Bill Purchase: A short term financing supplied by the bank against export bills (better including full set of negotiable transport documents) as the mortgage as required by the exporter after he delivers the goods. It is available both under letters of credit and documentary collections, against documents which may be discrepant. The exporter may deploy such financing to repay pre-shipment financing---packing loan. Consequently, the exporter's credit line occupied for the previous packing loan is released, and instead, the credit line for such export bill purchase is occupied accordingly.

iii) Negotiation: A similar financing to export bill purchase except that it is only against compliant documents presented by the beneficiary under negotiation letter of credit by the negotiating bank nominated in the letter of credit. Other banks other than the negotiating bank should not provide negotiation unless having obtained the issuing bank's specific authorization.

iv) **Export Discounting:** A short term financing provided by the bank to the exporter, by means of buying with recourse immature usance draft accepted by the issuing bank or deferred payment undertaking made by the issuing bank under letters of credit. It should be noted that this kind of financing does not require occupation of the exporter's relating credit line. Instead, the bank will occupy the credit line of the issuing bank in its corresponding banks' management system.

v) **Forfaiting** also called bill buy-up or bill buy-out, is a kind of trade financing that the bank, as the buyer-up, purchases without recourse from the exporter the accepted usance draft so as to provide finance to the exporter. That is to say once the exporter obtains the financed fund, he will be exempt from the responsibility to repay the debt. Moreover, this kind of financing enables the exporter to transfer various risks resulted from deferred payment, such as interest-rate risk, currency risk, credit risk and political risk. Same as export discounting, no exporter's credit line needs be occupied.



“Made in China” in the USA market

Trade finance helps in overseas marketing

vi) **Silent Confirmation:** A new-emerging kind of financing first provided by foreign banks in China, to provide without recourse financing against compliant documents to the beneficiary of letter of credit by the bank which is not the nominated confirming bank under a confirmed credit, or even under an unconfirmed credit. The bank providing silent confirmation usually requires the exporter to sign an assignment agreement with it, standing in the exporter's shoes as an assignee for claiming its rights under the credit. Under silent confirmation, the issuing bank's credit line should be occupied by the bank, and

usually, the exporter's credit line need not be occupied, but his creditworthiness may be considered generally.

viii) **Export Two-Factor Factoring:** The export may assign his export receivables under D/A or O/A(Open Account) to its bank, and the bank (export factor) together with its foreign partners(import factors) will provide you with trade financing arrangement, bad debt protection, sales ledger maintenance and credit management and collection. Although the exporter's credit line is not required to be occupied, the export's client, namely the import should establish credit line in the import factors. One thing merits attention. The financing provided by the export factor is without recourse unless there are disputes on the quality of goods under the sales contract.

ix) **Export Invoice Discounting:** Similar to export two-factor factoring financing except that export factor occupies the exporter's credit line to provide financing as the assignee of the receivable under the sales contract by signing an assignment agreement with the exporter.

x) **Financing under Export Credit Insurance:** This kind of financing is provided by the bank to the exporter who has arranged export credit insurance for his transaction. Less and even no credit line of the exporter will be occupied as the bank may rely upon the cover of the export credit insurance.

For the Importer, China's banks may usually provide Import Bill Advance, a kind of short-term finance offered by the bank to the importer according to his demand upon receiving the bills under the letter of credit and the import collection items. The financing period is always matched with the duration of resale of imported goods as the received payment is the main source to pay off of the bill advance.



View of China's economic development - the end result of trade-friendly policy, trade success, and accessible and affordable trade financing

What others say

www.jpmorganchase.com

Banks are stoking the engine of growth by facilitating import and export trade flows with financing and risk mitigation. For example, over the past year JP Morgan has arranged and participated in several structured trade deals. The firm's role is to facilitate the financial instruments needed to ensure product completion. This has meant extending credit to financial institutions in China (e.g., to facilitate letters of credit), providing insurance coverage, working with the Export-Import Bank of the United States for exports from the U.S. to China, or a combination of these solutions. **China continues to experience rapid export growth to every region.**

www.export.gov/china

Q: What method of payment is recommended for exports to China?

The most secure method of payment is letter of credit confirmed by a U.S. bank. Although the Bank of China dominates China's trade-finance business, most Chinese commercial banks have the authority to issue letters of credit for imports. These include China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and CITIC Industrial Bank. Foreign banks with branch or representative offices in China can also issue letters of credit. Other common forms of payment are less secure.
