

'Golden opportunity' for Chinese lenders in US

Big Four banks still able to extend credit as Western counterparts recapitalize

By **ARIEL TUNG** in New York and **CHEN JIA** in San Francisco

Three years ago, Chinese banks provided support to various big US companies that were finding it difficult to obtain loans from lenders in their own country.

While helpful to businesses that were in need of capital, the extension of credit also dovetailed with the banks' desire to expand

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overseas.

The most prominent example of such lending came in December 2009, when General Electric Co's financing unit, GE Capital, obtained a three-year, \$400 million loan from Industrial and Commercial Bank of China Ltd.

ICBC, the world's biggest bank measured by market capitalization, made the loan a year after GE Capital had entered, and then quickly exited, a bailout program offered by the US government.

The Temporary Liquidity Guarantee Program had been designed to get big banks to lend to each other, thus adding liquidity to the financial system at the height of the world economic crisis.

The loan had come at a fortuitous time. ICBC had set up its first US branch in New York in 2008, intending to concentrate on commercial lending.

It soon began cultivating relationships with US-based multinational corporations that were seeking "to maintain stronger financial statements and support for their businesses", said Bi Mingqiang, general manager of ICBC's New York branch.

That same year, at the peak of the US recession, many of these companies responded warmly to Asian banks' willingness to lend.

"We have established very close business relationships with many top multinational corporations since the financial crisis," Bi said. "ICBC believes now is a good time to do more business in the United States."



Should we be concerned about a Chinese State-owned enterprise investing in the United States? We don't think so."

SAN FRANCISCO CHRONICLE OPINION ESSAY BY STEVE FALK, PRESIDENT OF THE SAN FRANCISCO CHAMBER OF COMMERCE, AND VINCE COURTNEY, EXECUTIVE DIRECTOR OF THE ALLIANCE FOR JOBS AND SUSTAINABLE GROWTH

Among US companies, the bank has also provided loans to the computer technology company Dell Inc, the delivery company United Parcel Service Inc and Southwest Airlines Co.

With many Western banks still keeping a tight rein on capital, Chinese banks have a "golden opportunity" to play a greater role in the US, said Chew Ping, managing director of China operations for Standard & Poor's.

"However, they must be aware that they are operating in a market that is very different from China's market," he said. "This is a learning process for them."

Just five years ago, Chinese banks were unlikely to lend to US corporations, said Brian Caplen, editor of the UK financial magazine *The Banker*.

"Chinese banks still are able to extend credit, while US and European banks incurred so many bad loans during the crisis that they need to recapitalize," Caplen said. "Their capacity to lend is less now."

Chinese institutions, as measured by *The Banker*, gained a bigger slice of global bank profits after the economic downturn.

They now generate nearly 30 percent of those profits, compared with just 4 percent in 2007, according to a worldwide survey of 1,000 banks



Bank of China Ltd's booth at an international financial trade show in June in Guangzhou. The bank also has branches in New York and Los Angeles, with a third US branch in Chicago in the pipeline.

A MING / FOR CHINA DAILY

the magazine released in early July.

China's Big Four banks — ICBC, China Construction Bank Corp, Bank of China Ltd and Agricultural Bank of China Ltd — were among the banks with the five largest annual profits on the Top 1,000 World Banks 2012, a list compiled by *The Banker*. ICBC led the pack.

The authors of the survey wrote that China, the world's second-biggest economy, is entering a period when its banking system will attain dominance.

Among world banks, ICBC was ranked third by *The Banker* in a list of banks with the largest amounts of Tier 1 capital. That was the highest spot ever accorded to a Chinese bank.

Tier 1 capital is a measure of a bank's financial soundness and ability to withstand unexpected losses. It consists of capital held in common stock — equity that can't be redeemed at the option of shareholders — as well as retained earnings, or reserves.

"One big factor of their huge profits is the domestic situation in China," Caplen said.

"The economy was growing at 8 to 9 percent a year. Property prices were rising, and companies were expanding."

But the banks' business outside China is still quite small compared with what they do inside the country. Some experts said it remains to be seen how greatly Chinese banks will become "internationalized."

"It's inevitable for Chinese banks to go overseas," said Chew. "But it will take quite some time for them to be truly internationalized."

While Chinese banks are seeking opportunities to lend to Western companies, their main objective is to help Chinese enterprises operate overseas, Caplen said.

"As Chinese corporations go abroad to diversify their sources of supply, Chinese banks will naturally follow them," he said.

ICBC's completion in July of its acquisition of an 80 percent stake in BEA USA, the California-based subsidiary of the Bank of East Asia Ltd, paves the way for the Chinese bank to expand its US business. The deal marked the first time the Federal Reserve had approved a Chinese bank's attempt to purchase a US bank.

To Caplen, the deal showed there is "declining US resistance" to Chinese investment.

H. Rodgin Cohen, a partner at Sullivan & Cromwell LLP, the law firm that represented the Bank of East Asia in the transaction, said the purchase of the stake suggests the Fed is more receptive to such investment. But, he added, "nobody knows for sure how receptive it would be" toward future deals.

The Fed recognized that Chinese banks have made progress in a relatively short time, Cohen said.

"The Chinese banking regulatory system is clearly more modernized and Chinese banks now have better performance, in terms of being more consistently profitable and having better asset quality," he said.

And the Fed's approval of the deal does not signal an endorse-

ment of Chinese banks in general, according to Francis Zou, a partner at White & Case LLP, which represented ICBC.

One cause of ICBC's success with regulators was the fact that its New York branch turned a profit within its first year. Also, its loans to some Western companies during the crisis helped the Fed in its decision. But those were not the chief reasons the deal was approved, Zou said.

In October 2010, ICBC bought the US broker-dealer operations of Fortis Securities from the France-based BNP Paribas SA. ICBC paid a token \$1 for Fortis, which BNP acquired as part of its crisis-fueled 2009 purchase of Fortis Bank of Belgium. The unit, though small, overlapped with the French bank's existing US broker operations.

"When ICBC submitted its application to the Fed, it already had a good track record in the US," Zou said. "For other Chinese banks that aim to expand in the US, a careful

30 percent

the portion of global bank profits that Chinese banks currently generate, compared with 4 percent in 2007

expansion plan will be helpful."

The Fed has also decided to allow the Agricultural Bank of China to build a New York office. And Bank of China, which has branches in New York and Los Angeles, was allowed to build a third branch in Chicago.

In Maryland, the state's Department of Business and Economic Development is expecting the arrival this fall of the Export-Import Bank of China, whose first US office will be established in the World Trade Center building along Baltimore's Inner Harbor.

State officials said they have been in talks with their Chinese counterparts since fall 2011, when Governor Martin O'Malley reached out to Li Ruogu, chairman of the bank.

The Export-Import Bank said in a statement that its Baltimore office will concentrate on developing its business, evaluating projects and building relationships within the US market while it considers providing financing to Chinese companies that are trying to invest in the US.

"Establishing a presence in Maryland will yield mutual benefits for both parties and will help to add jobs and increase trade and investment," said Zhu Xinqiang, vice-president of the bank.

"With China having one of the

world's fastest-growing economies, it is critical that we move forward now to explore new opportunities for trade and investment, particularly in our shared strengths of science and technology," O'Malley said.

In San Francisco, the home builder Lennar Corp and its partners are in talks with China Development Bank about obtaining \$1.7 billion in capital to accelerate the development of the long-delayed Treasure Island and Hunters Point Shipyard-Candlestick Point housing complexes.

Kheay Loke, who works for Lennar's project partner Wilson Meany, said his San Francisco real estate firm is working on Treasure Island. He declined to disclose details about the project.

A senior manager at a local real estate firm, who declined to be identified by name, said discussions with China Development Bank are at an early stage.

Local business and labor leaders have expressed support for the projects, which are to convert two former naval bases into 20,000 new homes, a sports arena and millions of square meters of office and retail space.

San Francisco's city government has pledged hundreds of millions of dollars in bond financing for the projects, but no private lender has shown itself willing to support them.

"We agree it is a shame that no US financial institution has been willing to lend to these projects on reasonable terms," wrote Steve Falk, president of the San Francisco Chamber of Commerce, and Vince Courtney, executive director of the Alliance for Jobs and Sustainable Growth, in an opinion essay in the *San Francisco Chronicle*.

"It's no secret that our credit markets have remained incredibly constrained since the housing crisis of 2008.

"Should we be concerned about a Chinese State-owned enterprise investing in the United States? We don't think so."

They said the developments will help to add jobs to the design and construction industries.

"As everyone knows, the Chinese are growing their own economy and are looking to invest in industrialized nations. Frankly, there is no better place for the Chinese to invest their dollars than back in America and especially in San Francisco, the gateway to the Pacific."

Contact the writers at atung@china-dailyusa.com and chenjia@chinadailyusa.com



A China Construction Bank Corp branch office in Nanjing. The lender is among the banks with the five largest annual profits in the world, according to the UK financial magazine *The Banker*.

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