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## So you want to get your money out of China? Cut out and keep edition

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By: **David Keohane**

You're a rich Party official go-getter on the Chinese mainland, with an eye on how much the renminbi might fall over the next year.

You know there's a very decent chance that capital controls [are going to be tightened up soon](http://ftalphaville.ft.com/2016/02/15/2153307/guest-post-how-to-think-about-the-capital-of-china/). (<http://ftalphaville.ft.com/2016/02/15/2153307/guest-post-how-to-think-about-the-capital-of-china/>)

You know that *at the moment* you can still get your capital out of China — even if it's a bit more than the annually permitted \$50,000 per person — and that it's probably going to cost you to do so.

But you don't want to pay over the odds. After all, you didn't get wealthy paying more for services than you had to.

Well... Good news. Bernstein's Michael Parker and team have your back:

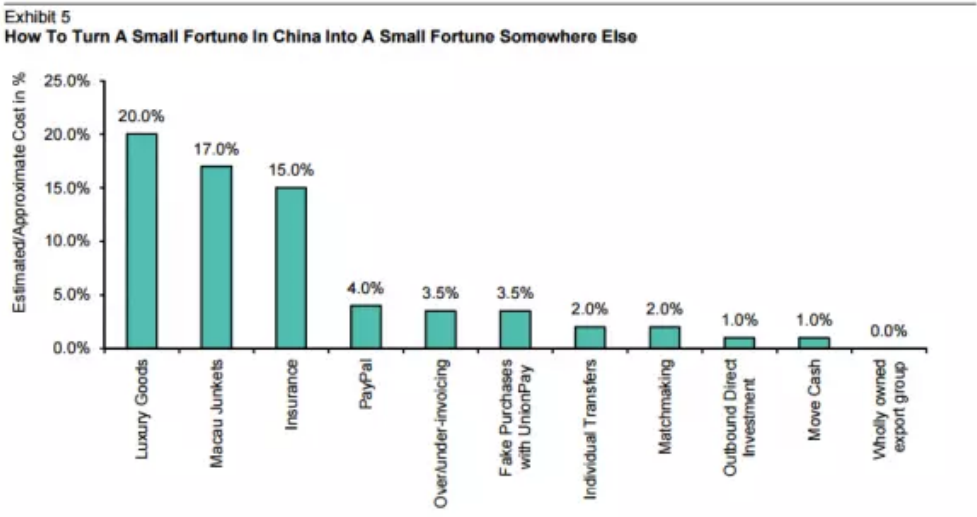
**Exhibit 3**  
**How To Turn A Small Fortune In China Into A Small Fortune Somewhere Else**

No.	Method	Description	Estimated/Approximate Cost
1	Individual transfers of funds - up to US\$50,000/person/year	Individuals pool quotas from family or friends, or use underground banks that have sufficient quotas under various bank accounts	~1-3% spread for underground banks
2	Physically moving cash out of China	Cash is physically smuggled out of China	No real cost, but limited by size and risk of confiscation
3	Underground banks providing "matchmaking" services	An onshore individual who wants to move money out of China is matched up with an offshore individual who wants to move money into China. No money is actually crossed over the border as each individual receives it on the other side. The underground bank acts as a matchmaker and takes a spread.	~1-3%
4	Over and under-invoicing of imports/exports	Trading companies would inflate the value of imports from offshore to make inflated payments to an offshore company, or would under-invoice its exports and have the customer pay money to an offshore bank account	~1-5%
5	Outbound direct investment by corporates	Corporates apply for investment quotas to invest in overseas assets offshore. Some of these purchases are for shell companies in Hong Kong	At least 0.5% and regulatory costs
6	Step transactions within wholly owned groups	Set up of functional subsidiaries outside of China, where most of the sales proceeds from exports remain outside of China	No real cost, just need existing infrastructure in place
7	Fake purchases with UnionPay cards and refunds for cash	UnionPay cards are used to purchase expensive watches or other items from a pawnshop, and then the items are immediately refunded to the pawn shop for a fee	~2-5%
8	Buy USD insurance policies	Investment into offshore insurance products denominated in USD	~10-20% opportunity cost and surrender charges
9	Macau junkets	Individuals deposit cash onshore with junkets and receive cash offshore to gamble, or receive credit from junkets offshore to gamble	Likely to lose ~12-22% at the casino table
10	Purchase of luxury goods as store of value	Purchase of luxury goods offshore as a store of value	Depends, but roughly ~20%
11	Bitcoin transfers	Bitcoins are bought in a domestic Bitcoin exchange, then transferred to a offshore-based Bitcoin account and converted into foreign currency	~0.1-0.4% trading fee, plus ~1% bank conversion fee, plus risk of loss/gain in Bitcoin value during transfer wait time as Bitcoin values are volatile
12	PayPal transfers	Cash is transferred from a PayPal account opened in China to an offshore based PayPal account	~4%

Source: Bernstein estimates and analysis

Bernstein are here to help you learn “how to turn a small fortune in China into a (slightly) smaller fortune elsewhere”. Click chart to enlarge.

What’s most interesting is how high the transaction costs are for some of the best-known ways to slip capital out of China – gambling in Macau, buying life insurance policies to cash out in US dollars abroad – or buying handbags and luxury watches. As shown in this chart:



Source: Bernstein estimates and analysis

The costs of getting your money out via the baccarat table are pretty obvious, of course.

Especially note the costs compared to underground banking — such as match-making, where an underground bank basically agrees to be the middleman in a swap between the jurisdictions of China (where it's illegal) and Hong Kong (where it's not), maintaining bank accounts in both.

So, do what you think is best but do note that Bernstein think that “From the perspective of simplicity, cost and systemic risk, this match-making role of underground banking is, in our view, the ‘best’ outcome...” [Others might disagree \(http://ftalphaville.ft.com/2016/02/29/2154742/china-capital-outflow-and-that-over-reporting-of-imports-problem/\)](http://ftalphaville.ft.com/2016/02/29/2154742/china-capital-outflow-and-that-over-reporting-of-imports-problem/), but we've discussed them already this week.

Interestingly with match-making, **“foreign currency reserves in China are not altered.** RMB that belonged to one party in China now belongs to another. Foreign currency outside China is transferred in compensation. **There is no systemic risk** to the Chinese financial system as a result as no foreign currency actually leaves the country.”

The problem is of course that there is rarely going to be an even number of people on both sides of the trade. As Bernstein say, “the system does not work if no one wants to bring money into China, or the ratio of those wanting to bring cash in and those wanting to bring cash out becomes – at moments of distress – materially unbalanced.”

We won't dwell on the rest of the methods but, [with the death of the \\$100 bill \(http://ashokarao.com/2016/02/27/on-the-100-bill/\)](http://ashokarao.com/2016/02/27/on-the-100-bill/) discussion in mind, do have a look at the challenges of moving physical cash out of the country:

**...a US\$1 million in \$100 notes would weigh roughly 10kg (22 lbs.). A US\$1 million in RMB100 notes would weigh 75kg (165lbs).** If you are planning to start carrying large amounts of cash across international borders and are hoping not to get noticed, choose USD (also lighter than gold at the moment, by value).

As an extreme illustration of how inefficient physically carrying RMB across the Chinese border is as a means of creating systemic risk to the economy, if Chinese residents tried to take the \$100 billion that has been leaving China each month recently out via from Shanghai Pudong airport, it would require that roughly one-fifth of all passengers on international flights out of PVG each day were currency mules. The math is relatively straightforward: \$100 billion in RMB100 notes weighs 7,500 tons. Baggage allowance is currently 30 kg. Assume that they use plastic bags and that there is (for whatever reason) no interference from customs officials. That would require ~290,000 currency mules each month. Roughly 1.5M people fly out of Pudong on international flights each month. In this scenario, roughly one-fifth of them would have to be “holding”.

**... given that RMB currency in circulation is only RMB6.3 trillion, it would also mean that physical currency leakage on this scale would drain liquidity by 10% each month... and absolutely blow out CNH liquidity in Hong Kong.**

**In short, it is fun to think about people “smuggling” RMB out of China in their baggage, and no doubt it is happening to some extent at present. However, this is not the source of capital control breaches that should scare the PBOC. In short, the RMB is not leaving the country in size in physical currency.**

Finally, do also note that this list [isn't exhaustive \(http://ftalphaville.ft.com/2015/01/29/2104532/china-vs-the-so-called-art-industry/\)](http://ftalphaville.ft.com/2015/01/29/2104532/china-vs-the-so-called-art-industry/) and [ambition \(http://www.wsj.com/articles/ambitious-chinese-developers-](http://www.wsj.com/articles/ambitious-chinese-developers-)

[plan-cities-abroad-from-ground-up-1456815602\)/ creativity might be rewarded. \(http://blogs.wsj.com/chinarealtime/2016/02/16/china-capital-flight-2-o-lose-a-lawsuit-on-purpose/\)](http://blogs.wsj.com/chinarealtime/2016/02/16/china-capital-flight-2-o-lose-a-lawsuit-on-purpose/)

Or punished. Yeah, probably punished.

### Related links:

[China, capital outflow and that over-reporting of imports problem \(http://ftalphaville.ft.com/2016/02/29/2154742/china-capital-outflow-and-that-over-reporting-of-imports-problem/\)](http://ftalphaville.ft.com/2016/02/29/2154742/china-capital-outflow-and-that-over-reporting-of-imports-problem/) – FT Alphaville

[China vs the so-called “art” industry \(http://ftalphaville.ft.com/2015/01/29/2104532/china-vs-the-so-called-art-industry/\)](http://ftalphaville.ft.com/2015/01/29/2104532/china-vs-the-so-called-art-industry/) – FT Alphaville

[Of Chinese capital outflows, tighter capital controls... and baccarat \(http://ftalphaville.ft.com/2015/09/21/2140362/of-chinese-capital-outflows-tighter-capital-controls-and-baccarat/\)](http://ftalphaville.ft.com/2015/09/21/2140362/of-chinese-capital-outflows-tighter-capital-controls-and-baccarat/) – FT Alphaville

[Governor Zhou: “The central bank is neither God nor magician that could just wipe the uncertainties out” \(http://ftalphaville.ft.com/2016/02/16/2153382/governor-zhou-the-central-bank-is-neither-god-nor-magician-that-could-just-wipe-the-uncertainties-out/\)](http://ftalphaville.ft.com/2016/02/16/2153382/governor-zhou-the-central-bank-is-neither-god-nor-magician-that-could-just-wipe-the-uncertainties-out/) – FT Alphaville

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