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Building Resilience and Staying Strong: a Positive Outlook for Asia

By
Kaushik Shaparia
Regional Head of Trade Finance and Cash Management Corporates for Asia Pacific
kaushik.shaparia@db.com

Despite the numerous threats the global economic crisis poses to Asia's corporates, the region has proved resilient. Indeed, whilst the average long-term growth rates for all regions have been impacted by the eurozone crisis, the forecasted growth differential between the Asia-Pacific region and the rest of world has increased.*

Certainly, the poor financial health of the West has been felt in the East. The eurozone crisis and the struggling US economy have indeed negatively impacted Asia's major export markets. However, the poor sentiment in Western economies has also prompted a steady inflow of capital into Asia. And this looks set to rise as regional regulations and policies are liberalised to facilitate cross-border commerce.

A significant development facilitating this is, of course, the internationalisation of the Chinese renminbi (RMB). In addition to improving working capital and liquidity management, this will increase pricing transparency, reduce foreign exchange (FX) risks and costs, and shorten settlement cycles.

Strengthening Defences to Stay Resilient

Asian corporates understand that any complacency on their part could render them more vulnerable to ongoing economic uncertainties, regardless of how well Asia may be withstanding the global economic volatility. As a result, many are taking steps to strengthen their individual defences to stay resilient.

A key concern for most Asia-based corporates in the current economic climate is counterparty risk. The ability to assess a counterparty's financial health enables corporates to anticipate potential issues and respond before they reach a critical point. As a result, corporates are aiming to increase transparency in order to mitigate risk. This can be achieved through streamlining internal systems, as well as through consolidating the number of bank relationships.

Consolidation is a growing trend throughout the region, as it allows corporates to improve efficiency by centralising treasury practices. It also enables them to choose financially resilient banking partners — indicated by strong balance sheets.

Liquidity and working capital management are two further areas that require an increased focus, in an increasingly tight liquidity environment. However, while transaction services offered by banks in Asia have grown more sophisticated across the board and capable of delivering great cost savings and process efficiencies, many corporates are still relying on highly manual processes that do not optimise liquidity or working capital management. For example, many corporates continue to hold individual bank accounts in every currency in which they make or receive payments, and this has had an adverse impact on overall working capital and liquidity management with cash balances being widely disseminated.

The improvement of working capital management is an imperative. Increased restrictions and regulations have caused a significant reduction in bank funding — making efficient working capital management critical to business survival. Larger multinational corporations are responding to this by leveraging their own strong standing with providers such as Deutsche Bank to structure financial supply chain solutions for a win-win outcome that delivers tangible benefits for themselves and their trading counterparties along their value chain.

Certainly, many corporates are also taking measures to improve internal operations — rationalising account structures and improving visibility of transaction-related data. As a result, corporates are capable of real-time access to transaction flows and can therefore improve their cash flow forecasting practices — resulting in enhanced risk mitigation.

Moving Forward

Many corporates are looking for access to increasingly sophisticated and integrated cash and liquidity management solutions to help them maximise the funds they have at their disposal and minimise cash-related risks. A sizeable number of corporates may find they lack the reach, experience and expertise required to structure and implement the appropriate working capital solutions. In such cases, the best way forward would be securing the help of a knowledgeable banking partner such as

Deutsche Bank that can offer not only market-leading solutions and structuring capabilities but also consultative services — especially as they look into expanding into new markets.

As a trusted banking partner to many of Asia's corporates, Deutsche Bank is committed to playing a vital role in the region's economic development — with Asia a key pillar of our global strategy. In order to serve the evolving needs of our regional clients, the Bank strives to combine strong on-the-ground expertise with ongoing technology innovation, which has led to our position at the forefront of IT developments. What is more, understanding that technology capability is only half the solution, we also place an emphasis on the importance of local market knowledge and understanding the needs of individual clients.

Asia has stood strong in the face of adversity, but the struggles have yet to subside. Establishing a solid relationship with a reliable and capable banking partner is the best way for a corporate to not only survive but to thrive in a challenging business environment, and to be in a position to capitalise on new opportunities as they arise.

**Source: Global Insight, January 2011 & December 2011*