BANKING ON NEW TRADE CORRIDORS

There are many ways banks can assist corporates looking to capitalise on emerging trade corridors. In all instances, communication is paramount.

Given global trade expansion combined with a rise in electronic transactions, getting the right services from a bank is crucial. With the increase in trade between Asia, the Middle East and Africa, corporates often find themselves in unfamiliar territory.

Shivkumar Seerapu, Asia Pacific Head of Trade Finance, Global Transaction Banking at Deutsche Bank, explains that the uptick in trade flows between these regions is twofold. "When you look at trade between Asia, Africa and the Middle East, there are two kinds of trade: the first relates to the physical trade flows. An example would be Asian corporates sending manufactured goods to Middle East customers, and Middle East exporters sending commodities, such as oil and gas, to Asian customers. The second is overseas expansion trade, whereby Asian companies set up offices in the Middle East and Africa to support the growth of their business in the region. If you look at both of these categories, there are clear areas in which banks have a vital part to play."

"Trade flows between Asia and Africa are similar to those between Asia and the Middle East, although somewhat broader since Africa is not only an important source of natural resources, but also of agricultural commodities for many Asian manufacturing economies. The increased focus that Chinese corporates, for example, are putting on the interaction with Africa has been around trying to maximise the potential of the continent's natural resources. But Africa is also seen as an attractive market for their finished goods. For instance, automotive and electronics companies in China, India and Korea are focusing on Africa as their new marketplace due to the slowdown in demand in Europe and the US."

Customer service

Asian companies looking to trade in Africa face a number of challenges, including new regulations, a different business culture and an unfamiliar financial environment. Banks, says Seerapu, can help on all counts. "The role that banks can play to help sustain these trade flows is that of an intermediary between corporates. The trade in oil and gas between the Middle East and Asia, for example, has been taking place for a long time, and by now most of the buyers and sellers know each other quite well. However, when pursuing new trade corridors – with Chinese companies exploring new markets in Africa, for example – new challenges emerge. Their local bank in Asia may not have a presence in Africa, so global banks, such as Deutsche Bank, with a truly global footprint are well-positioned to assist them. We are able to leverage our worldwide network, tailor products to suit client-specific needs and use our local market knowledge and expertise to provide a platform for overseas expansion," he adds.

For example, an Asian corporate might need help in making its trade finance products and credit terms compatible with its clients' needs in Africa. In such cases, Deutsche Bank can use its local branch or correspondent banking network to help facilitate the relationship. As a result, compatibility issues are eliminated – putting the two on more equal footing – and transactions are underpinned by the robustness of a trusted bank.

When setting up trade in a new location, corporates want to offer attractive solutions to their customers in order to gain market share quickly. This often leads to demand for specific trade finance products, which can range from the fairly straightforward – such as discount receivables and letters of credit – to highly-sophisticated. Seerapu is also keen to point out that the importance of basic banking services should not be dismissed. Indeed, bank assistance at all levels is of great value. "Even basic services, such as opening a current account for an Asian customer setting up an office in Africa, and helping the business subsequently become fully operational, are important. Banks, therefore, can assist not only with the provision of various trade finance products, but also with basic banking services to help a company settle into a new location. At Deutsche Bank, this full service approach lies at the core of our offering, and it has been very well received by our Asian clients thus far," he says.

Realistic expectations

Banks must also manage their clients' expectations in a new market. Setting realistic goals is crucial to success, and it is particularly important when it comes to the pricing of bank services in a new country.

Seerapu explains: "We could have a large Chinese corporate used to getting extremely competitive pricing in its home market because there are many local banks offering to do business. However, the situation is very different in countries such as Brazil, where the corporate might not be as well-known and therefore may not be able to leverage their status with local banks. In this instance, a global bank could offer support by extending the relationship it has with the corporate in China to provide similar services in the new country. Yet, it is important to remember that this does not take away the need to manage the corporate's expectations of the new market."

Understanding local financial regulations can be a challenge for many corporates. It is crucial for them to assess the feasibility of their project, and determine the scope of the opportunity from a cost and funding perspective before entering a new market.

"THE DEMAND FOR SCF PRODUCTS HAS GROWN GRADUALLY OVER THE YEARS."

▸ **Shivkumar Seerapu**, Deutsche Bank

Supply chain

While the suitability of supply chain finance (SCF) in trade transactions needs to be assessed on a case-by-case basis, its practical benefits are clear. Corporates should, therefore, endeavour to partner with a bank with a strong offering in the sector.

"While SCF should not be seen as the answer to everything, it can play a vital role for companies keen to take advantage of low-cost manufacturing in one location, and maximise sales revenue in another."

"The demand for SCF products has grown gradually over the years, but the 2008/09 financial crisis heralded a notable rise in growth as customers became increasingly concerned about the health of their supply chains. As a result, SCF, and more specifically its resilience, was brought into the spotlight. We have also seen a change in the type of corporates requiring SCF solutions. Initially, multinationals were the primary drivers of demand for SCF products. Today, however, we see increasing demand from local corporates as well," says Seerapu.

Deutsche Bank

Deutsche Bank's Financial Supply Chain solutions cover three main areas: 1) supplier finance to strengthen relationships with core suppliers and improve the economics of a corporate's supply chain; 2) receivables finance to enable access to alternative and attractively-priced means to generate cash and reduce receivables; and 3) distributor finance, which helps to provide financing to creditworthy distributors – subsequently helping corporates to access additional working capital and liquidity – while at the same time improving cash flow and the management of trading relationships, as well as growing sales.

Seerapu adds: "Our recent enhancements and innovations in this space include the launch of the Financial Supply Chain Manager on Deutsche Bank's Autobahn App Market. This App enables our clients to access receivables finance and supplier finance solutions via one central access point and it has multi-currency and multilingual capabilities. This could in fact be the next generation of financial supply chain solutions."

"The other aspect that we have recently developed is the ability to handle the credit rating of large pools of receivables. For example, if one of Deutsche Bank's clients has regular sales to 40 different customers worldwide, and wants us to purchase its receivables, we have to find a way to evaluate the overall credit rating of these buyers – and some may not be our clients. As we might not have access to their financial information, the evaluation process can prove difficult. For this reason, we have recently developed state-of-the-art tools to help us analyse pools of receivables and buyers, even in instances where we don't have access to their financials."

The new trade corridors between Asia, Africa and the Middle East can present many opportunities for Asian corporates, but also some challenges. As a result, choosing the right bank to facilitate a smooth transition into these new markets is essential.