South-south trade is reshaping the global landscape

Deutsche Bank's Daniel Schmand – EMEA head of trade finance and cash management corporates – discusses growing emerging-market trade interconnectivity, and analyses its potential impact on both trade and cash-management practices.

Daniel Schmand, EMEA head of trade finance and cash management corporates at Deutsche Bank

Global commerce was once typified by trade between mature and developing economies – with the mature players generally dictating the terms of trade. Times have changed however, with trade increasingly an intra-emerging market concern. According to recent statistics from the World Bank, over 50% of all global trade flows are now "south-south" – that is, between emerging markets. China has been, and indeed remains despite its current economic slowdown, the key instigator of such flows. Its evolving trade ties are illustrative of this emerging new world for global trade.

While much of China's growth was fostered through bi-lateral trade with the US, another trading relationship – between China and Brazil – has grown in importance. Indeed, the Brazil-China trade link has, in recent years, become perhaps the highest profile example of intra-emerging market trade success. This is particularly the case as the symbiotic relationship between the two has expanded in scope to encompass Brazil's export of electronic goods in addition to commodities, on which the relationship was first founded.

Yet as a "poster-boy" for intra-emerging market trade, the Brazil-China relationship is also being challenged – this time by China's strengthening trade ties with Africa. Statistics show that in 2012 the value of bilateral trade between China and Africa increased to over US$200 billion. So, while Africa is becoming an increasingly important trade region globally, it is the China-Africa connection in particular that can serve to illustrate the true extent to which the uptick in south-south trade is reshaping the international trade landscape.

China and Africa: challenges and opportunities

Where China leads, others appear to follow. And Africa, which is rich in minerals and agricultural reserves, is fast becoming an attractive trade destination for all major economies. Yet, despite the opportunities presented by Africa's emergence, there are obstacles that corporates wishing to explore its potential – and, indeed, intra-emerging market trade flows generally – must overcome.

Counterparty risk, for example, is a key concern with respect to south-south trade – particularly with Africa, where, for the most part, trading track-records have yet to be established. Trading with new counterparties in unfamiliar markets or geographies can bring with it a host of associated transaction risks, such as delayed or even failed payments. As a result, traditional documentary-based instruments, such as letters of credit (LCs), remain the settlement method of choice for intra-emerging market transactions, even as more flexible open-account terms have become the norm between developing markets. Yet LCs can be costly and time-consuming – bridging the gap between security and efficiency for intra-emerging market trade,therefore, is a notable challenge.

Regulation, too, is a major concern. Indeed, achieving end-to-end compliance with evolving regulations adds another layer of complexity, particularly with regard to new markets or geographies where local practices and compliance requirements are less well-known.

Finding solutions

Facilitating China-Africa trade – and intra-emerging market trade as a whole – requires a combination of innovation and technological solutions. Technology can act as a vital facilitator of global trade flows, enabling increased operational and processing support – as well as visibility across the entire transaction cycle – all of which can help to establish and strengthen new trade ties.

Technology can also help corporates with cash and liquidity management – for instance, when dealing with the growing use of China's renminbi (RMB). Although RMB settlements in the offshore "CNH" market have only been permitted since 2010 – meaning clearing capabilities are still in their infancy – such capabilities could generate a distinct competitive advantage.

Certainly, from a processing perspective, converting payments into single currency transactions – by paying Chinese counterparties in RMB – increases efficiency. In this case it can also be enormously advantageous for African trading entities: fostering bargaining power for emerging market importers when negotiating with Chinese exporters, who will be keen to avoid the FX risk of dealing in dollars.

Specialist local expertise is equally vital. On-the-ground teams offering local market insight are a key resource when it comes to understanding – and navigating – local business practices and regulations. Being in a position to exploit such expertise is easier said than done, however, and is the realm of only a few specialist global transaction banking providers.

With Deutsche Bank's global network, multi-currency capabilities and strong industry known-how, we can play a key role in encouraging intra-emerging market trade – allowing companies worldwide to navigate the difficulties, and capitalise on the growth potential rising from an emerging trading landscape. ■