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Treasurers in China and India Focus on Liquidity Management, Process Improvement and Automation

The emergence of China and India as leading global growth markets is driving the priorities of corporate treasury managers in Asia. Mahesh Kini, Regional Cash Management Corporates Head, Asia-Pacific, for Deutsche Bank, discusses developments in Asia and what treasury professionals in the region are focusing on in the wake of the global financial crisis.

Why have Asian countries like China and India become so attractive to multinational corporations (MNCs)?

Kini: Even during the global downturn, China and India have been exceptional economic performers. While regional neighbours such as Hong Kong and Singapore — and traditional global powerhouses such as the United States and the European Union — have experienced stagnant or negative growth, China and India have been producing healthy Gross Domestic Product (GDP) figures. The Organisation for Economic Co-operation and Development has forecasted 2009 GDP growth of 7.7% for China and 5.9% for India.

A common factor fueling their growth has been the expansion and increasing affluence of their middle classes. MNCs have been attracted by this new source of buying power, as well as by the low cost of operations and robust labor pool available in China and India. For these reasons, China has evolved into a manufacturing hub for the world market, while India — with its highly educated, multilingual talent pool — has developed into a global service hub for operations such as back offices and call centres. Together, the two countries have shifted the focus of many multinational corporations to Asia, leading to a greater emphasis on sound treasury management in the region.

What are some of the liquidity management challenges created by this shift in focus to China and India?

Kini: In Asia, treasury managers face the same liquidity challenges that they encounter in other parts of the world, namely low interest rates and a dearth of risk-acceptable investment options. Additionally, in both countries, treasurers face government restrictions impacting their ability to earn interest on short-term investments, as well as rules hampering the movement of cash across borders.

What are some challenges specific to China, and how are companies addressing them?

Kini: In China, it's a challenge to consolidate cash into a single position in the local currency. The government prohibits direct intercompany lending, resulting in many companies using entrustment loan structures where a bank such as Deutsche Bank acts as an agent to facilitate cash transfers between related companies. With the Chinese government imposing a service tax on entrustment loans, Deutsche Bank has responded to clients' cash management needs by introducing a tax-optimised liquidity management structure for renminbi (RMB) cash pools designed to limit the tax costs.

Treasurers are also looking for alternatives for mobilising RMB within China. MNCs can reinvest their cash in China, repatriate cash once or twice a year through dividends, or place funds in interest-bearing bank accounts. But with companies looking to diversify investments and improve on state-dictated interest earnings on these accounts, investing with fund managers has become popular.

What about liquidity management challenges in India?

Kini: The first thing treasurers need to know is that in India banks aren't allowed to pay interest on funds invested for less than seven days, and notional pooling is not allowed in India. As a result, fund managers and other investment funds are very popular. Intercompany lending is acceptable, although companies must meet regulations requiring them to have a minimum sum of capital on their balance sheets to arrange for zero-balance sweeps between sister companies.

What else is occupying the minds of treasury managers in China and India?

Kini: Process re-engineering is another priority. Treasurers are approaching process improvement in the region in two ways: technical process re-engineering and supplier/distributor financing.

An example of technical re-engineering is tightening up collection processes. In Asia, capturing customer payment information poses challenges. However, one new solution is helping. Deutsche Bank's FastCollect Online service is meant for countries where business-to-business check payments are popular, such as India. Bank agents pick up checks on behalf of corporate clients and use handheld mobile computers to capture collection information at the point of pickup. Receivable information is made available to the client electronically for immediate reconciliation.

MNCs are also concerned about their suppliers and distributors having enough working capital to keep pace with business growth. Banks such as Deutsche Bank are responding in Asia with electronic platforms and onboarding services to support supply chain financing programmes. These programmes enable large corporate buyers to leverage their superior credit ratings to ensure suppliers and distributors can access working capital.

Finally, the economic ascent of China and India is resulting in increased corporate investment in treasury automation in the region. In addition to treasury workstations, many companies are adding regional treasury centres in the Asia time zone, particularly in Singapore and Hong Kong.

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