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The Changing Landscape of Asian Trade Finance

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Asia's relative resilience to the recent financial crisis is indicative of the changing economic landscape in the region. And trade finance has a key part to play in sustaining growth and cushioning local corporates against unexpected economic and financial shocks.

While Asia was certainly affected by the recent financial crisis, the growing resilience of many local economies was demonstrated by the less adverse effect on domestic consumption rates that were experienced here compared to in Europe and the US. Asia has also been quick to recover — conditions have improved rapidly in all the 14 markets where Deutsche Bank currently does business, and both the number of trade finance transactions and their total volume has shown strong growth so far this year. Indeed, in many respects, Asian economies such as India, China, Singapore and Korea have been driving the global recovery.

A key factor driving this resilience and growth has been the expansion of the middle class in many of these economies. The emergence of the middle class has made Asia an increasingly attractive proposition for companies doing business in, for example, consumer goods and financial services. The growth in intra-Asian trade which coincides with this has lessened the vulnerability of local markets to economic shocks originating in the West.

Despite this fairly positive outlook, there are still some concerns as to how the recovery will proceed and how these economies will develop in the coming years. For example, risk mitigation and liquidity management are now at the top of the agenda for many as anxieties remain regarding how the failure of key counterparties could impact businesses, and corporates want to ensure that they are well positioned to cope should there be another sudden deterioration in the availability of credit.

In this respect, financial supply chain (FSC) management continues to be a key area of interest as corporates seek to put in place arrangements to improve their own working capital positions and assist any key suppliers that might unexpectedly find themselves in financial difficulties.

Optimising Working Capital

In terms of optimising liquidity and working capital arrangements, a recent deal between Deutsche Bank and the Vietnam Southern Food Corporation (Vinafood2), a state-owned entity and the largest rice exporter in Vietnam, provides a good example of the type of solution increasingly being put in place by Asian corporates.

When Vinafood2 was mandated by the National Food Authority (NFA) of the Philippines to export 1.5 metric tonnes of rice with payment terms of document against acceptance (D/A), it needed to comply with a Vietnamese government directive stipulating that D/A bills must be discounted on a non-recourse or limited-recourse basis. As most of the local banks only possess very limited offshore networks, this requirement could only be met by an international provider such as Deutsche Bank.

To address Vinafood2's needs, Deutsche Bank leveraged its presence in Vietnam and the Philippines to deliver a 180-day non-recourse discount facility of approximately USD 84 million, partially backed by credit insurance. A portion of the financing was arranged by NFA using two local banks, and Deutsche Bank Philippines provided the rest through Trust Receipt loans that settled against NFA's discounted bills upon maturity.

Apart from providing a good example of current best practice in receivables financing, this deal was also notable as it was structured during a period of intense financial turbulence — mid-2009 — and that 90% indemnity coverage from a top-rated insurer was secured despite this. In addition to assisting in the mitigation of payment risk at a competitive price, Deutsche Bank was able to fix the discount rate against the rising cost of USD funds that prevailed during this period.

Ongoing Opportunities

With liquidity returning to the market, we have seen a rapid contraction in margins, and trade finance providers will need to come up with innovative solutions to address the changing market dynamics. In addition, we are likely to see a growing divide between the larger economies — such as India and China — and their smaller counterparts, as the former will gain greater benefits from their increasing levels of domestic demand, whereas smaller economies that remain more reliant on exporting to the other regions may experience more sluggish rates of growth.

As Asia continues its growth momentum this year, Deutsche Bank is set on capturing the opportunities brought about by the increased trade flows within the region. This is a result of the Bank maintaining its focus on the region as a key growth pillar, and sustained investments in building product capabilities, expanded network coverage, and developing talents in Asia, despite difficult times last year. Deutsche Bank is well placed to service the needs of its corporate and financial institution clients in Asia and across the globe.