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Cash Management in Asia: Past, Present and Future

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The Asian economic landscape has changed a great deal over the past 10 years and this exciting region continues to develop rapidly. Asia's importance to the global economy continues to increase and the past decade has seen the region become a much more significant economic player. While trade with the rest of the world has continued to show impressive growth, intra-Asian trade — fuelled, in part, by a middle class that is growing in numbers and affluence — has also developed in its importance to the region, affording it a greater level of protection against economic shocks originating in the EU and the US.

However, while these developments are certainly to be welcomed, they have contributed to a changing landscape for treasurers working in the region, making efficient cash management more complex by increasing the exposures to local currencies faced by many corporates. Indeed, the move away from the bulk of trade being conducted on a USD basis has demanded that treasurers expand their risk management arrangements to take account of this changing landscape.

One consequence of these developments is that many multinational corporates (MNCs) have been compelled to bring treasury management closer to the region. For example, dealing with the cash management requirements of Asian subsidiaries from offices based in Europe or the US is no longer an option for many, and we are seeing an increasing number of regional treasury centres being established in Asia in order to manage these payment flows and exposures. Complementing its Western counterparts, Asian corporates are also looking at better managing their exposures, especially when they move out of their home market and must manage multiple risk exposures.

In addition to the changing dynamics of global and intra-Asian trade, the regulatory environment has also impacted trends in Asian treasury management. The degrees and types of regulations in this region have always been very diverse — often due to differing levels of maturity among individual markets — yet we have observed some common threads. For instance, since the Asian economic crisis of the late-1990s, central banks in the region have tended — compared to their Western counterparts — to be much more proactive in terms of managing monetary policies and reacting to changes in the economic environment. This means that corporates need to fine tune their treasury policies to stay on top of these dynamic regulations.

Trends

Impressive growth and growing sophistication in Asia are changing the way corporates address treasury management in the region. On top of the establishment of regional treasury centres, we are also seeing a trend toward consolidating certain business functions in shared service centres, and standardising processes — such as accounts receivable and payable — across the region in order to eliminate duplication and drive efficiency.

The continued rise of global sourcing and the recent phenomenon of western MNCs seeking to distribute — as well as manufacture — their products in Asian economies have both contributed to the growth of financial supply chain management (FSCM) in the region. Using these techniques, many corporates are now seeking to release liquidity trapped in supply chains and assist key suppliers in securing affordable working capital funding. Through taking a collaborative approach to the financial supply chain — working, for example, with key suppliers to achieve positive outcomes for both parties — many corporates have seen dramatic improvements to key supply chain metrics such as days payables outstanding (DPO) and days sales outstanding (DSO).

The events of the past 18 months have also played their part in shaping cash and transaction management in the region. While Asia was perhaps less affected by the crisis than the EU and the US, attitudes toward counterpart risks — especially those involving financial institutions — have certainly changed. In this regard, many corporates are now seeking to diversify their bank relationships — a marked change from the prevailing trend of the early-2000s where centralisation and consolidation were the orders of the day.

The Future

With respect to the next 10 years or so, Asia will certainly be one of the key drivers of global growth. Indeed, Asia's giants — China and India, for example — are expected to lead the way into a period of economic development that some term an "industrial revolution" for the continent. A key challenge here will be ensuring that monetary policies continue to favour sustained growth — an important task for the regulators in the region. Given that many of the economies are still in development stages, maintaining a favourable regulatory environment is crucial.

In terms of how this will affect the role of transaction banks, the growing interest in the financial supply chain is indicative of the changing nature and growing sophistication of corporate needs. This emphasis on working capital is likely to continue and we are already seeing a growing demand for solutions that focus on the cash conversion cycle, as well as those that can assist in mitigating exposures to local currencies. Indeed, as the needs of corporates operating in Asia become more sophisticated, the banks that will succeed are those, such as Deutsche Bank, that have the financial muscle, remain committed to the region, continue investing in their technological platforms and pay attention to what their clients want.