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Global Transaction Banking

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Trade Trends and Challenges in Asia

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Bolstered by rising inter-regional trade and domestic consumption, Asia's economic growth is set to continue outpacing that of the USA and Europe. With Asia being fragmented with varying regulatory requirements, capital controls and levels of maturity and sophistication, the ability to navigate each market's complexities is a vital element of what regional corporates want and need from their trade and transaction banking providers.

Attempting to compare trade pricing across Asia's diverse markets is also a challenge and not a meaningful proposition. Broadly a function of the credit environment and risk, pricing rose in the wake of the financial crisis, with the high perception of risk and tight credit market, before stabilising. In China, trade pricing is also a function of local liquidity, with availability of onshore renminbi (RMB) determined by the country's prevailing liquidity policy.

In response to global financial challenges, corporates seek to enhance liquidity and working capital management, improve risk mitigation and decrease costs. Their success, however, is influenced by the level of economic maturity and sophistication of their domestic country.

To meet these goals, many corporates are working to streamline their treasury operations. However, there is limited progress that the corporates can make on their own. A more sophisticated phase of business development — and achieving future growth plans — requires a banking partner with the global network and technological strength to help them meet their goals.

Local Asian banks are increasingly regional in outlook and can now compete more effectively with global players in providing offshore financing and credit, thanks to their large local deposit base. Nevertheless, despite reaching ever-higher levels of sophistication, they continue to lag their international counterparts both in terms of cross-border banking network connectivity and technology platforms that span numerous geographies while helping corporates generate internal efficiency gains.

Renminbi Opportunities

Liberalisation of the rules governing use of the Chinese RMB for cross-border trade settlement offers many potential benefits for Asian corporates.

Mainland Chinese importers and exporters with mainland designated enterprise (MDE) status, and their overseas trading partners, can opt to denominate their trade transactions in RMB. This boosts efficiency and minimises unnecessary foreign currency exposure for many corporates. Trade financing of imports in US dollars would typically consume their bank's limited foreign debt quota, whereas closing a deal in RMB helps avoid this.

Overseas exporters selling into China generally benefit from the foreign exchange (FX) curve with its appreciating yield, while companies importing from China and making payments into China in RMB typically find the curve going against them — so their desire to redenominate imports into RMB is significantly less.

To secure the benefits and also capitalise on progressive internationalisation, Asian corporates need access to sophisticated networks and platforms more than ever. While the RMB's current phase of expansion provides for greater working capital efficiency, this is only possible if corporates can access consultative services and RMB-ready transaction banking systems and software. The significant investment required may be beyond the reach of many local banks.

Opportunities and Challenges

The opportunities in Asia are partially offset by difficulties and concerns; the main one being ongoing economic turmoil in the USA and Europe — both major export markets for Asia. Although local economic trends remain robust, the resulting uncertainty may hamper growth.

There is also some way to go before the RMB becomes a truly international currency. One reason for this is regulation. As current guidelines require that RMB settlements can only be made for genuine trade transactions, banks and financial institutions must satisfy themselves that the underlying transaction is trade-related. This means these transactions cannot be processed straight through, creating a more manual and labour-intensive process.

A further challenge is that RMB liquidity outside China is concentrated in Hong Kong. The currency would become more internationalised once liquidity becomes more widely distributed to other financial centres such as Singapore, New York, Frankfurt or London. Notwithstanding these hurdles, the RMB initiative continues to gather momentum. We have also seen growing interest in denominating RMB supply chain financing platforms from clients outside Asia.

Deutsche Bank in Asia

Deutsche Bank understands that a key area of focus for corporates in Asia involves increasing efficiency and generating cost savings through sound working capital management — whether through the efficacy of supply chain management or by using the RMB for trade settlement.

Yet solid partnerships with transaction banking service providers are equally vital for the goal of enhanced working capital management to be achieved. As a trusted bank partner to many corporates across the region, Deutsche Bank strives to help its clients maximise opportunities available in the market and worldwide.

We do this by providing access to market-leading RMB-ready technology and financial supply chain solutions, as well as our global network. This combination of expertise, technical strength and geographic footprint allows us to develop and deliver solutions to meet the increasingly complex requirements of our clients in Asia.