As trade, information and technology flows increase between Asian corporates and foreign counterparties, greater sophistication is taking root throughout Asian treasury departments, says *KK Tay*, head of GTB Asia at UniCredit.

THE INCREASING SOPHISTICATION OF ASIAN TREASURERS

Due to their extraordinary size, China and India tend to dominate opinions about Asia's stance in the global economy. Meanwhile, the growth of smaller Asian economies goes relatively unnoticed. But the simple truth is that the continent would not contribute over one third of world GDP – as it now does – without the economic success stories we have seen in Indonesia, Thailand, Malaysia, Korea and Vietnam.

Until now, growth throughout these countries has been export-led. As expansion continues, the region's economies will re-balance and shift from producer to consumer markets – a transition already taking hold in many countries. Asian corporates are driving this development process. As they forge new and more sophisticated links to their peers outside of Asia, their trading methods will be increasingly adopted by foreign counterparties. The emergence of the RMB as the fifth most popular global settlement currency is one example of this.

But they will also need to address certain risks associated with growth and foreign expansion. For instance, we are experiencing increased demand from Asian corporates for assistance in managing foreign regulatory developments, such as the Single European Payments Area (SEPA) in Europe. Alongside this has come increasing demand for support in transaction settlement processes, especially for cross-border payments in new currencies with new counterparties.

Risk management a key early priority

This is particularly important for Asian corporates, who are rapidly expanding their business and trade relationships. While counterparties are still building a level of trust and familiarity, bank intermediation is important to manage the associated risk. This is one reason why Asia has emerged as a global leader in traditional settlement instruments such as Letters of Credit (LC) – indeed, 65% of LCs are issued in Asia, with around 55% of that volume being intra-regional.

The traditional next step in a burgeoning trade relationship – once a certain level of trust is attained – would be to begin transacting under open account terms. Indeed, open account methods of settlement have increased in popularity internationally in recent years, while LC volumes have decreased overall. But while open account methods are far quicker, the benefits of bank intermediation – such as working capital optimisation and risk management – are lost.

As many trade relationships have yet to shift to open account in Asia, corporates there are well placed to begin using an innovative third option – the Bank Payment Obligation (BPO) – in greater numbers. As a fully-electronic settlement method, BPOs provide the risk mitigation and working capital optimisation offered by LCs alongside automated processing at the speed demanded by modern supply chains.

Indeed, we're seeing increasing interest from Asian corporates in BPOs following the first such transaction in the continent late last year, between a Japanese corporate and its German supplier. That this transaction took place with a European supplier demonstrates the strength of Asia's business links with Europe. But as these links spread throughout Asia's emerging economies, corporate treasury departments must be prepared for the different regulatory frameworks at play abroad.

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Kok Keong Tay, UniCredit

Regulatory impact

SEPA is a case in point. Of course, any Asian corporate with operations in Europe – or plans for the same – must be compliant. Certainly, Asian corporates will be justified in thinking that SEPA has taken a very different form from its initial concept. Many expected the total demise of local payment schemes in favour of a single central European format. While the creation of one XML format has done much to improve harmonisation, it has fallen short of a universal standard, and there are still different regulatory requirements at play in many countries. And while Eurozone countries should be compliant following last year's deadline, other countries outside of the Eurozone but within the EU – such as Croatia – are yet to join the SEPA-zone.

As such, the current state of affairs will still seem reasonably fragmented to Asian corporates. In this respect, partnering with a bank will be immensely helpful. With offices in 17 countries across Europe and local expertise on hand, UniCredit is well placed to provide information on regional variations in regulation. Indeed, UniCredit has successfully advised many of Europe's largest companies on the SEPA-migration process over the last several years.

Innovations flow into Asia

But SEPA compliance should not be seen as only a compliance hurdle. The scheme has done much to simplify operations with its new SEPA Direct Debit and Credit Transfer payment formats, which offer corporates the ability to consolidate payments and increase visibility into cash flows. As such, many are beginning to consider fully restructuring their account management systems in order to operate from a single hub.

Digital services such as Virtual Accounts build on these efficiencies by allowing corporates to centralise all of their payments in one single "physical" account, organised by a practically unlimited number of "virtual" accounts. Indeed, the efficiencies generated through this service, and others like it, are helping to drive increased flow between the developed and emerging worlds. And with this increase, more sophisticated approaches to the supply chain are flowing into Asia, such as supplier financing.

In this process, a highly-rated buyer can guarantee its bank payment for certain invoices from its supplier, allowing the bank to extend liquidity to the supplier based on the strength of the buyer's credit profile. This is particularly relevant for Asian corporates trading with European counterparties: in the majority of these relationships, the European business will usually have a better credit rating.

Asia's growing influence

As more sophisticated approaches to cash and supply chain management are flowing into Asia, so too is economic influence flowing in the other direction. Nowhere is this more evident than in the rise of the RMB, which has come hand-in-hand with China's emergence as an economic powerhouse. We are seeing more trades, more LCs and more payments from Europe denominated in the Chinese currency. But significant potential for growth remains. The use of RMB as a payment currency is still small compared to China's share of global trade – less than 2% of these payments are denominated in RMB.

As the Chinese government continues to relax the regulations governing its use, alongside the establishment of new free trade zones, the prospect of full convertibility seems inevitable. For European corporates, the advantages of holding RMB are already clear in that it can reduce currency risk exposures. As Asia's economies continue to expand, the influence of the RMB – and new contributions to global trade practice from the region – can only grow. With our regional expertise, and continued success at building trade links between Asia and Europe, we look forward to seeing it happen.