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International corporates going east to centralise treasury operations

UniCredit
Corporate & Investment Banking

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Conscious of the need to drive profitability through internal efficiencies, international corporates are looking to Asia as a location for centralising their treasury activities. At the same time, Asian countries, including Singapore and Hong Kong, are offering tax concessions and other incentives in a bid to lure in business, says *Holger Frank*, Head of FIG and GTB Asia Pacific region at UniCredit.

Buoyed by fresh growth in their home markets, many international corporates are looking to expand into new regions. As they do so, however, they must contend with growing economic uncertainty, increased regulatory pressures and robust industry competition. It's a situation that's seeing many look to internal efficiencies for new competitive advantages – with centralised treasury operations high on the agenda.

At the same time, a combination of growth in inter-regional trade, improvements in banking technology, and the internationalisation of the renminbi (RMB) have made regional treasury centres (RTCs) in Asia an increasingly attractive and affordable prospect for international corporates of all sizes. Indeed, for many of these companies, the question now is not whether they should set up an RTC in Asia, but where.

China is an obvious option in this respect – offering clear advantages for those with considerable exposure to its powerful economy – but those with a more diversified exposure will also want to consider other locations, such as Hong Kong and Singapore.

Finding the right location

Certainly, corporates will be on the look-out for a number of qualities when selecting a location for their RTC. Low operating costs, reliable infrastructure, and strong banking services will be key considerations, along with favourable regulations and a large labour pool with expertise in the relevant areas.

Many Chinese cities boast strong offerings on these fronts. Shanghai, for instance has been a popular destination for some time. Other, less costly, locations include Chengdu, which is now home to the back offices of major western multinationals such as Honeywell and HP.

Those with limited operations in China will find that even greater cost savings can be made by situating their treasury centre outside the mainland. Many nearby countries, such as India, Malaysia, Sri Lanka and the Philippines are clamouring for the business – relaxing their regulations and offering compelling incentives to boost their competitiveness in the face of their more established counterparts. Two countries, in particular, have been highly successful in this regard.

Singapore offers sophistication and talent

The first of these is Singapore. The city state offers a particularly favourable business environment, with a deep pool of talent and a sophisticated banking sector that have already encouraged numerous multinational companies to set up RTCs in the area.

Though costs are slightly higher here than those in other locations, these are offset by Singapore's favourable tax rates, which include a wide double tax treaty and low taxation for corporate income.

This situation is further improved by specific incentives laid on to entice businesses into the area. For a start, Singapore offers tax breaks for companies using it as a base for regional, global or research and development operations. What's more, the Economic Development Board (EDB) offers a Finance and Treasury Centre (FTC) Award, which grants further tax concessions to companies using Singapore as a base for centralised treasury operations.

Hong Kong: An ideal location for off-shore dealings with China

Of course, Singapore is far from alone in doling out incentives to bring in prospective business. Hong Kong, too, offers a compelling proposition in this respect.

Its status as an established financial hub – the second-largest worldwide in terms of stock market capitalisation – is enough to make it an attractive location in its own right. But factor in the latest package of incentives for international corporates setting up an RTC in Asia, and Hong Kong becomes a highly competitive location for centralised treasury functions.

Indeed, new tax changes have recently been put into law which make inter-company interest payments tax-deductible for corporate treasury centres, and halve the tax rate on profits arising from specific treasury activities to 8.25% – undercutting Singapore's current rate of 10%. These changes are due to come into force in the first half of this year.

In addition to its tax incentives, Hong Kong also boasts excellent conditions for managing RMB exposure off shore through its RMB trade settlement scheme. This provides support for corporates looking to hedge their exposure to RMB without having to incur the costs of being located on the mainland.

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And while RMB internationalisation has suffered to some extent as a side effect of recent temporary measures from the Chinese government, Hong Kong's strategic position for hedging FX exposures remains a considerable factor for those looking at the longer term.

Even without RMB hedging opportunities, Hong Kong is a fundamentally attractive location for companies with considerable Chinese exposure. Its proximity to China – geographically, culturally and linguistically – greatly simplifies the process of conducting business with Chinese counterparties, and further bolsters its credentials as a location for centralising treasury activities.

Certainly, international corporates are not short of options when deciding where to set up their RTC. With each location bringing its own unique set of benefits and incentives, the decision will ultimately come down to corporates' individual requirements and preferences. No matter where corporates choose to establish their centres, it is clear that we are on the eve of a new era of treasury centralisation – and Asia has a considerable role to play in this development.