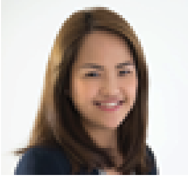
Commercial Bank

Sanjeev Jain
Commercial Bank Product Head, Asia Implementation Head, Asia Treasury and Trade Solutions, Citi

Hsiu-Yi Lin
Citi Commercial Bank Head, Singapore



Jules Shih
Regional Sales, Treasury and Trade Solutions, Citi

Doing Business in Asia: Maximizing Regional Cash Flows

To take full advantage of the opportunities available in Asia, it is crucial to consider the evolving corporate treasury landscape in the region.

Asia is an increasingly important part of the global economy. China, India and the ten members of the Association of Southeast Asian Nations (ASEAN) have a population of 3.3 billion people – more than half the world's total – with more favorable demographics than many Western countries. The region also stands out as an engine of global growth. Total GDP of these three clusters is more than $16 trillion; with growth rates of 5% to 7%, they will soon rival the US in terms of GDP.

While the world is familiar with Asia's growth story, it is important to understand that it is changing in character. Digitization – the internet, mobile and e-commerce – is creating new growth segments in Asia and in China especially. With a young population in many countries across the region, mobile in particular has facilitated a huge digital economy. China is already the world's leading e-commerce market with 20% of retail sales taking place online; spending is due to exceed $1 trillion in 2018.[1]

Similarly, in India huge progress has been made in banking the country's enormous unbanked population. This is driving mobile commerce, which is also being facilitated by a newly launched payment method called United Payment Interface (UPI) on the nationwide real-time inter-bank electronic funds transfer system - Immediate Payment Services (IMPS). In ASEAN, digital is creating new ways to access a fragmented market: the region is Facebook's second largest market. Success in this market requires a focused acquisition strategy as well as partnerships.

Asia continues to attract high levels of foreign direct investment with $330 billion invested in China, India and ASEAN – which are the three main areas of focus for foreign companies – in the past year.[2] Much of this investment is destined for China with international firms now eager to access not only low-cost

[1] eMarketer, Dec 2014
[2] ASEAN Investment Report 2016, ASEAN Secretariat

production facilities, but also an increasingly sophisticated and affluent consumer market; Asia will account for 60% of the world's middle income people by 2020.[3]

Trade continues to be a huge driver of growth for Asia with $8.8 trillion of flows in the past year. Despite the withdrawal of the US from the Trans-Pacific Partnership, regional trade continues to grow. China's ambitious Belt and Road Initiative (BRI), which spans 65 countries and aims to reshape the international trade landscape by promoting enhanced connectivity, trade flows and investment opportunities, will have a major impact on ASEAN and the wider region. The establishment in 2015 of the ASEAN Economic Community to promote the free flow of goods, services, investment and people could also have significant long-term implications.

Asia corporate treasury trends

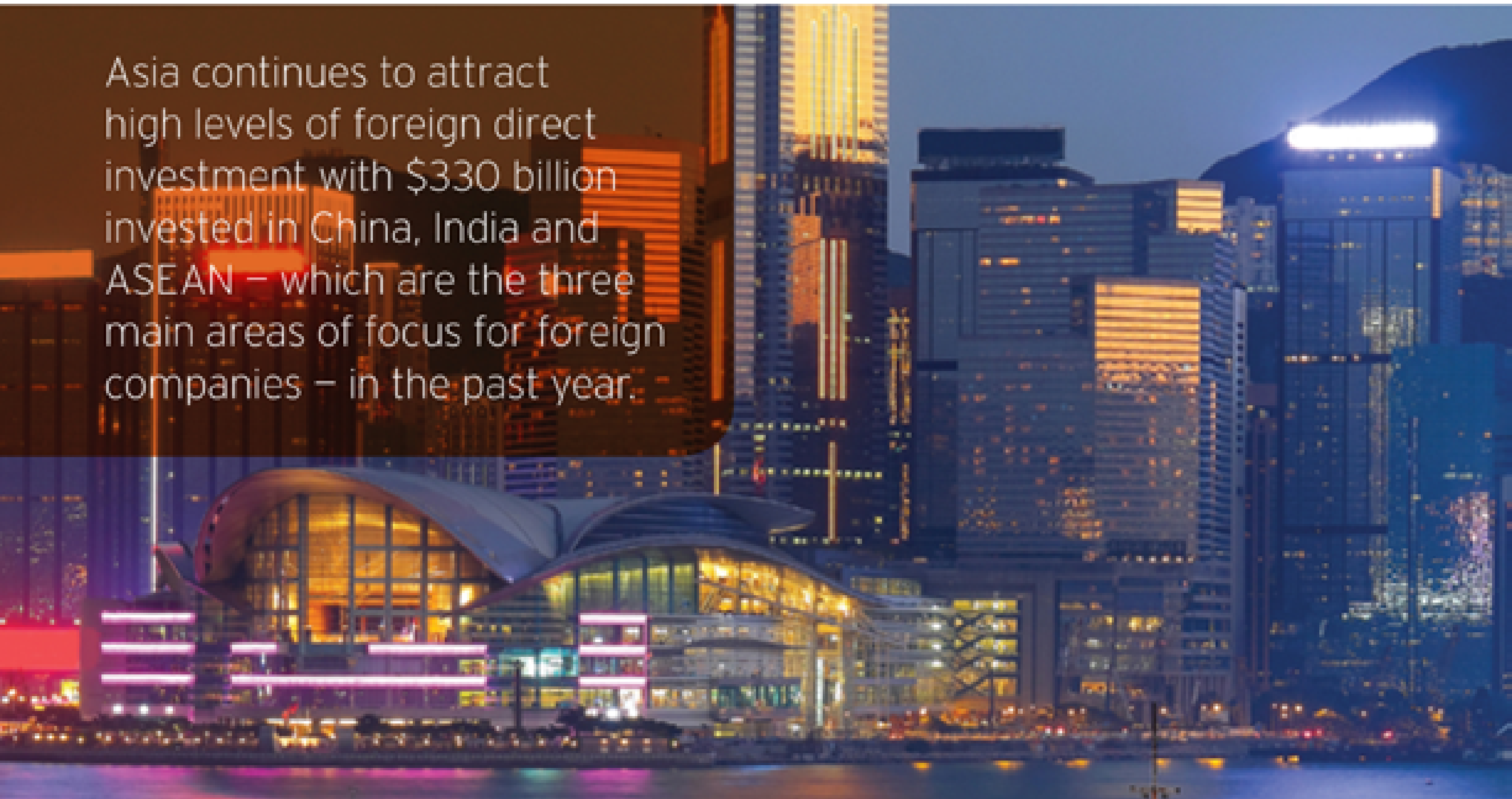
Companies seeking to expand in Asia need to be aware of the wide variety of conditions across the region. Some countries, such as Hong Kong, Japan or Australia, have markets that rank among the most open in the world and have few reporting requirements associated with moving cash; others, such as China and India, continue to have a number of restrictions that can create potential challenges such as trapped cash. There are also some countries that might be described as semi-restricted, such as Korea, Malaysia and Indonesia, where local currency must be kept onshore or where moving it offshore requires meeting onerous reporting requirements.

Although there is some liberalization of rules taking place – such as in Thailand where documentation requirements for capital and FX transactions have been eased – other countries' regulations are becoming more restrictive. For example, Indonesia recently introduced documentation requirements for foreign currency payments above $100,000 and mandatory use of the IDR for transactions by residents and non-residents; Malaysia has implemented Foreign Exchange Administration Rules and hedging requirements to protect its currency. In China, there is some evidence that requirements are now being relaxed after a period of tightening in recent years.

Despite this regional diversity, a number of key trends among corporate treasury are evident. For example, the use of regional treasury centers (RTCs) continues to grow, with some companies implementing more sophisticated structures such as in-house banks. There is also a drive to rationalize banking relationships and account structures as well as adopting increased automation and standardization (of file formats, for example) to improve efficiency. Many companies are seeking to improve receivables management through the implementation of region-wide reconciliation strategies.

Hong Kong and Singapore continue to be the two key locations for RTCs in Asia, given their mature infrastructure, large pools of skilled workers, competitive tax rates and various incentive schemes. However, RTCs are also becoming more common in China (driven by the importance of its market) while Malaysia and Thailand are emerging as processing locations due to low labor costs and tax rates.

[3] OECD, BCG, ANZ Research



Companies setting up an RTC typically focus on four main functions. These are liquidity management (including pooling, sweeping, netting and in-house banking); working capital management (covering payments, re-invoicing and coordination of supplier and distributor financing); repatriation or funding management (such as inter-company loans); and risk management (which usually encompasses FX, interest rate, counterparty and price risk).

Within RTCs, there is an increasing focus on centralization and digitization. To some extent, this process is being supported by the introduction of enhanced faster clearing platforms across Asia and initiatives by local government to modernize payments. For example, Singapore has rolled out Faster Payments (Hong Kong will follow in 2018), while Malaysia has introduced the JomPay national bill payment scheme and Thailand has implemented the new PromptPay interbank mobile payments system. Overall, electronic payments are growing rapidly across Asia.

Working with the right partner

Citi is the only full service provider offering on-the-ground expertise and a full range of transactional banking services across Asia. The bank, which has a history spanning more than 100 years in the region, has direct membership of all relevant clearing systems, ensuring local payments and collections can be efficiently processed (including tax payments in many countries). Overall, Citi can support payments in more than 130 currencies worldwide. In Asia,

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Citi provides cash management to over 300 shared service centers and more than 1200 regional treasury centers.

Citi's footprint in Asia and globally means it is well-placed to assist companies seeking to take advantage of the opportunities presented by the region. For example, Citi is present in 58 of the 65 territories covered by China's BRI. As a result, it can help clients to navigate local markets, tax, regulatory and compliance requirements. Citi also has a strong global trade service and Export & Agency Finance operation, which will be important for BRI-related business opportunities.

Other Citi initiatives designed to help clients with their automation, digitization and centralization objectives include document digitization for forms and supporting documents and world-class cybersecurity and controls. Citi also offers a variety of value-add solutions to optimize payables and receivables, including ERP integration using single file format and globally standardized connectivity, and Payer ID accounts, which enable clients to individually identify payers to facilitate easy reconciliation.

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