January/February 2024

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Asia's IPOs focus on tech

Initial public offering (IPO) activity is expected to pick up in Asia in 2024, and rule changes will impact tech companies.

The Corporate View

Jason Teo

Head of Treasury, South East Asia
LOGOS Group

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Focus on fundamentals continues

To many, quantum computing sounds like something so far-off that it still remains in the realm of science fiction. This technology, as well as the potential of artificial intelligence heralds an exciting future for treasury and are both topics that are covered in the January/February 2024 issue of Treasury Today Asia.

Technological developments are always interesting, but, as any good treasurer will tell you, despite all the new-fangled technology that is out there, it is always important to remain focused on the fundamentals. This is a theme that runs through the risk management piece that looks back at 2023 and analyses the key learnings that treasurers can apply to the year ahead.

Many treasurers that we speak to didn't intend to pursue a career in treasury and land in the profession from other areas. In this issue, we speak to Jason Teo at LOGOS Group who started his career in branch banking, where he got a solid foundation in the fundamentals of how banking actually works.

Managing risk is also often about diversification – a fundamental idea – and this continues to be a strategy that corporates are pursuing when it comes to their reliance on China. China+1 strategies gained much attention due to the pandemic and subsequent lockdowns, which wreaked havoc on supply chains. Although the pandemic is now behind us, these strategies remain – for a variety of reasons – and there are some clear beneficiary countries that have emerged from this shift.

A focus on the fundamentals is also pertinent to analysing the current state of the Korean economy. Given the buzz around hallyu – or the 'Korean Wave' of popular cultural content that has taken the world by storm – it is easy to assume that the creative industries have taken over as the mainstay of South Korea's economy. This, however, is not the case as our feature on the topic explores.

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In 2024, technology, media and telecom (TMT) firms will face the dual challenge of keeping costs under control, while continuing to invest in growth and harness new opportunities. As such, treasurers of TMT companies will play an important role in helping to achieve that balance.

Asia's IPO markets focus on tech prospects

Initial public offering (IPO) activity is expected to pick up in Asia in 2024, and a number of rule changes are likely to have an impact on technology companies. As the reforms take hold, companies have a number of options when considering where they should list.

China continues to dominate the rankings when it comes to the top locations for IPOs and tops the table for funds raised in Asia – and the world. However, recent rule changes mean that some companies – particularly those in the technology sector – are considering alternative plans. Meanwhile, other locations in Asia have been making moves to make their markets more attractive to technology companies and start-ups to raise capital. When it comes to Asia's regional champions of the future, there are a number of IPO locations for them to choose from, and destinations in South-East Asia are emerging as the ones to watch.

While many jurisdictions are introducing reforms and doing their best to attract companies to list on their bourses, China continues to lead the global IPO market. According to PwC's Global IPO Watch, in the third quarter of 2023, China took the lion's share of IPO proceeds, raising US$11.7bn, followed by the United States in second place with US$9.3bn. Most of the activity, PwC notes, came from China's Star Market, which is focused on home-grown technology companies.

Meanwhile, the technology sector dominated IPOs at a global level and there was a particular interest in the renewable energy sector, according to PwC. At a country level, 70% of South Korea's IPOs were for semiconductor and technology companies, and the US and Japan were particularly focused on artificial intelligence companies.

With much buzz around technology, stock exchanges have been doing their utmost to attract the hot companies of tomorrow to list on their exchanges. China launched its Star Market in 2019 in a bid to create a bourse that was specifically focused on technology companies. It has been described as China's answer to the Nasdaq in the US and has accounted for much of the recent IPO activity in China. However, recent rule changes mean that the enthusiasm for Chinese tech

listings is running aground and many companies are having to rethink their IPO plans.

Star Market reforms

Chinese technology companies have been subject to a number of rule changes in recent years and Treasury Today Asia has previously reported on **how a crackdown impacted** a number of technology companies' ability to raise funds overseas.

More recently, rule changes to the Star Market mean that growing technology companies may also find it difficult to raise money at home. In October 2023, the Financial Times reported that 126 companies had cancelled or suspended their plans to list in 2023 because of a change in requirements to list. This number of companies was higher than the number of firms that had withdrawn their applications in the entire time the Star Market had been active. The disruption had occurred following new standards from the China Securities Regulatory Commission (CSRC) that means that companies now have a higher bar to reach in terms of their profitability before they are able to list. Previously, such companies didn't need to be profitable to list on the Star Market, which is officially known as the Shanghai Stock Exchange Science and Technology Innovation Board.

Also, the process had become incredibly bureaucratic with the application form to list on the bourse being more than 100 pages long. Many start-ups, which are not able to demonstrate their profitability in the same way as established companies, were put-off by the lengthy questioning about their business model and chose not to list on the Star Market.

The state's intervention in the market is driven by a desire to establish China's major companies of the future, which are aligned with the state's goals for the future economy. The intention is to identify companies that have the potential to be global leaders, and only list the companies that will be a guaranteed success, comments Andrew Collier, Managing Director at Orient Capital Research. Collier explains that the Star Market's target industries are mostly hardware rather than software, and less focused on consumption and companies that provide video games or food delivery, for example. One issue is that the bureaucratic decision-making process is driven in part by a fear of failure, comments Collier, who is also author of China's Technology War: Why Beijing Took Down Its Tech Giants.

As a result, a number of companies have shied away from listing. Being listed on the Star Market would give companies a certain kudos, and without that listing it may be seen they are not favoured by the government, thus making it difficult to raise funds elsewhere. The recent change in policy has been criticised by many observers and has caused uncertainty in the sector. "Letting regulators decide which high-tech companies should go public is like asking an eight-year-old child to choose the best moon-landing technology," Chen Zhiwu, a finance professor at the University of Hong Kong, was quoted by the FT as saying.

Collier points out that all jurisdictions regulate their markets and there are always rules and regulations. "There is nothing wrong with making decisions about how to control the markets. It's just that if the state is picking winners and losers, bureaucrats are not known for doing this well," says Collier.

Changes in Hong Kong

Meanwhile, in Hong Kong there have been changes that are encouraging technology companies to list, which coincides with a number of other reforms that are set to make Hong Kong a more attractive IPO destination.

One rule change that is expected to make an impact is Chapter 18C, which applies to specialist technology companies and went into effect in March 2023. According to Sidley, a law firm, the changes are intended to make it easier for tech companies to raise funds at the earlier stages of the company's growth. The bar has been lowered for such companies and the threshold for revenue has been reduced, which overcomes a typical challenge that start-up and scale-up companies face in the early stages of fundraising when it is difficult to generate revenue and profit. Such challenges usually mean early companies are unable to go public, but the rule changes aim to address that and encourage high-growth companies to list.

Virginia Lee, a partner at law firm Clifford Chance in Hong Kong, explains that the specialist technology companies are in five industries: next-generation information technology, advanced hardware, advanced materials, new energy and environmental protection, and new food and agriculture technologies. This covers companies that are engaged in cloud-based services and artificial intelligence, robotics and automation, semiconductors, advanced communication technology, and electric and autonomous vehicles, for example. "We believe this new Chapter 18C, together with the many recent initiatives of the HKSE [Hong Kong Stock Exchange], will increase the competitiveness and attractiveness of the Hong Kong market to regional and international issuers and investors and demonstrates the continuing efforts of the HKSE to grow market activities and liquidity," Lee writes.

In a recent press briefing in Hong Kong, experts at PwC were also positive about the impact that Chapter 18C would have on connecting such specialist companies with international funds. "Specialist technology companies in fields such as semiconductors and artificial intelligence (AI) have great potential and have attracted attention from the market," says Benson Wong, PwC Hong Kong Entrepreneur Group Leader. He adds that he expects to see three to five specialist technology companies to list in Hong Kong through Chapter 18C in 2024.

"The influx of Chinese mainland companies establishing or expanding their presence in Hong Kong, coupled with the increasing demand from international funds to allocate into RMB assets, means that there will be greater interconnection between the Hong Kong and Chinese mainland markets," says Benson Wong.

Hong Kong IPO outlook

The outlook for the wider IPO market in Hong Kong is also looking more positive. In 2023, the market was muted with the number of IPOs in Hong Kong seeing a decline. The total fundraising for the year was HK$46.3bn, which was a 56% decrease on the year before. PwC puts this decline down to a number of factors, including the upheaval caused by global and political uncertainties. PwC expects the market to pick up and reach HK$100bn in 2024, and capital for Europe, the

US and the Middle East is expected to return to Asia once interest rates start to come down.

The outlook for Hong Kong is also positive because the market has been making improvements to its offering and updating its trading technology. PwC sees potential with the Stock Connect mechanism, which links the Hong Kong market with mainland China. Through Stock Connect, investors can trade and settle shares listed on the other market through the exchange and clearing houses in their home market. With greater use of this mechanism, the experts at PwC expect this will strengthen the investor base in the Hong Kong and Chinese mainland markets and enhance liquidity and valuations. "The further expansion of Stock Connect will help promote Hong Kong as a centre for RMB asset risk management and solidify its position as a global offshore RMB business hub," Benson Wong comments.

Other reforms in Hong Kong

There have been other moves in Hong Kong to improve the environment for listing, with reforms to the Growth Enterprise Market (GEM) as well as the introduction of the FINI platform.

The GEM focuses on small and mid-sized issuers and has a lower bar for listing making it easier than listing on the main board of the Stock Exchange of Hong Kong (HKEX) for smaller companies to go public. There have been some recent reforms to the GEM listing to encourage new listings. Denise Jong, Anthony Woo and Vivian Ji, all lawyers at Reed Smith, explain that in 2022 there were no new GEM-listed issuers in Hong Kong and since 2019 the numbers have been in steep decline, hence why the exchange took action to encourage small companies to list. Now there is a new eligibility test, which makes it easier for companies to be eligible, and they are no longer subject to quarterly reporting. Such moves will enhance the attractiveness of Hong Kong Stock Exchange says Eddie Wong at PwC. "Small and medium-sized enterprises (SMEs) are an important driving force in promoting Hong Kong's economic prosperity. This initiative will help SMEs to seek capital to drive growth, sustain innovation and create value," he says.

Meanwhile the infrastructure in Hong Kong has received an upgrade and the exchange has now gone live with its FINI digital platform, which has been touted as signalling a new era for Hong Kong's IPO market. "FINI is a major HKEX initiative that will significantly upgrade the IPO settlement process in Hong Kong," Bonnie Chan, HKEX Co-Chief Operating Officer explains. "With the implementation of FINI, we are able to shorten the period between pricing an IPO and the actual trading of shares from five days to two days," she adds.

Linking with other regions

Hong Kong has also been making strides to improve the linkages with other regions, and Eddie Wong comments that Hong Kong is building connections between ASEAN [Association of Southeast Asian Nations region] and the Middle East, which will diversify the sources of capital for the Hong Kong IPO market. "The Hong Kong Stock Exchange has included the stock exchanges of Saudi Arabia and Indonesia to its list of recognised stock exchanges, attracting Middle Eastern and ASEAN listed companies to conduct secondary listings in Hong Kong, as well as promoting cross-border listing of enterprises and regional financial cooperation," Eddie Wong says. "This provides ASEAN and Middle Eastern enterprises with opportunities to access a wider range of regional and global investors and with a platform to drive business growth and increase market visibility. It will also further enrich the product ecosystem of the Hong Kong Exchange, provide Hong Kong investors with a wider range of investment opportunities and consolidate Hong Kong's status as an international financial centre," Eddie Wong comments.

Other areas in ASEAN

Meanwhile, other locations in Asia are becoming more attractive as IPO destinations, and the ASEAN region in particular is emerging as a bright and dynamic spot. According to Deloitte, Indonesia was the stand-out performer in the region, with 77 listings in 2023, raising a total of US$3.6bn, which puts it fourth in the global rankings after China, the US and the UAE.

The technology sector is showing particular promise, and there has been a great deal of attention on green technologies. Imelda Orbito, Disruptive Events Advisory Leader, Deloitte Indonesia, comments, "A new trend is on the horizon, marked by the global shift towards the renewable energy and electric vehicle battery sectors. Indonesia has set its sights on becoming a global hub in the electric vehicle supply chain, and the country is exceptionally well-positioned to attract both foreign and domestic investors alike."

Aside from Indonesia, the other emerging IPO markets to watch in ASEAN are Thailand and Malaysia. In Thailand there have been several listings from more varied industries, such as fast-moving consumer goods as well as life sciences and healthcare. Deloitte expects the Thai IPO market to be vibrant in 2024 with 38 companies already set to go public.

In Malaysia, the IPO market has been active. Its equivalent of the Nasdaq, previously known as the Mesdaq and now called the ACE Market, has been attracting a steady flow of investors with its lower ticket offerings, according to Deloitte. "The capital market initiatives that have been announced have also boosted market vibrancy and enhanced investors' access into the market. A formidable IPO pipeline is expected in 2024, buoyed by a healthy institutional and retail appetite, especially for consumer and tech or tech-related industries," said Wong Kar Choon, Disruptive Events Advisory Leader, Deloitte Malaysia.

In this context there are numerous options for growing companies to go public. For ASEAN's potential champions of the future, they have the ability to go beyond their home markets and list with cross-border IPOs. Deloitte notes that such companies are thriving and are attracting the attention of other markets around the world with stock exchanges creating various initiatives so that they can be the gateway for international investors into these companies.

With markets like Hong Kong already engaging in such initiatives, and the various moves to make stock exchanges more attractive to companies – particularly those in the technology sector – 2024 is set to be a vibrant year with plenty of options for companies that need to choose an IPO location.

standard chartered

Kelvin Ang Group Treasurer

ST Telemedia Global Data Centres (STT GDC) is one of the fastest-growing data centre providers with a global platform serving as a cornerstone of the digital ecosystem that helps the world to connect. Powering a sustainable digital future, STT GDC operates across Singapore, the UK, Germany, India, Thailand, South Korea, Indonesia, Japan, the Philippines and Malaysia, providing businesses an exceptional foundation that is built for their growth anywhere.

Working with Standard Chartered Bank, STT GDC embarked on an ambitious treasury transformation project. The result: more efficient cash management activities, greater visibility over cash, and access to high-quality insights that support time-sensitive investment decisions.

Problem…

When it comes to driving growth, data centre provider STT GDC takes a long-term view. In its organic growth strategy, it focuses on being a long-term operator of advanced, integrated and carrier-neutral data centres. Other than data centres that were acquired through mergers and acquisitions, the Group has the flexibility to either design and build all of its fully-fitted data centres or to enter into long-term core and shell leases contract alongside reputable developers. "During our acquisitions, we choose to take a controlling stake in countries like the UK and India," explains Group Treasurer Kelvin Ang. "Another variation involves taking a significant minority stake, which still allows us to actively influence business strategy."

In light of its development plans, STT GDC was looking to future-proof its operations and support growth in new markets. Specifically, the company wanted to improve consistency and control in the company's banking operations across different countries, address existing inefficiencies and optimise financing-related expenses.

To tackle these issues and future-proof the business, STT GDC was looking to re-evaluate its existing banking and treasury setup. It was clear that a transformation project would be needed to help the company increase its scalability, improve the efficiency of treasury activities, enhance cybersecurity and improve the existing treasury operating model. "And of course, we also wanted to be environmentally responsible and maintain high quality corporate governance practices at all times," adds Ang.

The specific goals of the transformation project included making better investment decisions, automating manual processes and establishing a group-wide policy governing treasury activities. To support these goals, the company took the decision to appoint a preferred cash management bank across the relevant countries.

…Solved

Following a detailed selection process, STT GDC appointed Standard Chartered Bank as its cash management partner. "We had a clearly defined set of criteria, including technological capabilities," recalls Ang. "It was also important to choose a bank that was a good match for our existing geographical footprint, as well as our potential growth markets."

Working with Standard Chartered Bank, the company was able to harmonise its operational workflows – for example, users can now log into a single platform using mobile app face ID, instead of needing to use traditional banking tokens. Moving to a single banking platform has also enabled STT GDC to gain more visibility over its cash and transactions, resulting in improvements to the cash forecasting process. In addition, new cash pooling capabilities have resulted in more efficient cash management, while reducing the need for time-consuming funds transfer requests.

Sustainability was another key focus. As of 2022, 52% of the company's electricity consumption is derived from zero-carbon renewable sources. "From a treasury standpoint, we have a deep commitment to growing our business in a sustainable manner, and working with our core banking partners on innovative and sustainable solutions," comments Ang. "For example, we have established a sustainability-linked financing framework, and successfully achieved green financing for many of our data centres."

As a company that embraces a digital-first mindset, STT GDC was well positioned to implement its treasury transformation project smoothly and effectively. "One key success factor was the strong buy-in and support from senior management, especially the Group CFO and Group Corporate Finance Officer," says Ang. "This was important both at the beginning stages, when we were seeking budget approvals, and during the ongoing execution when we needed resources and support to get things implemented." With a relatively lean treasury team, he adds, it was important to make sure that day-to-day operations continued smoothly during the implementation.

As a result of the project, STT GDC has achieved cost efficiencies across its global cash management and working capital activities, and increased visibility and control over treasury operations. The company is also able to harness more valuable insights: "The quality and timeliness of insights that we get from our bank partner is important because we need to make time-sensitive business investment decisions," says Ang.

Looking forward, Ang says the treasury team's future goals include adopting a suitable treasury management system and harnessing AI to optimise the FX management process. "One of our company's core values is to strive for excellence. By challenging assumptions and pushing boundaries through a culture of innovation, we will continuously improve and excel," he concludes.

Q-day: why it's time to get quantum ready

Quantum computers may be eight to 15 years into the future, but such is the threat to cyber security, companies with valuable data, IP or manufacturing processes should prepare now. Treasury Today interviewees urge corporates to get across the cost of upgrading encryption, choose partners and consultants; understand their data and trial emerging solutions.

Treasury teams could be forgiven for placing the cyber threat posed by quantum computers slightly further down their list of priorities than more common threats like deepfake or malware. Yet quantum computers, the new generation of super-fast machines that will one day be able to crack the encryption that begins the start of any secure session on the internet, will put the relatively contained operational risk of today's cybercrime firmly in the shade. They call it Q-day, and it's time to get ready.

For the uninitiated, quantum computers are a high-powered type of computing able to manipulate data points a billion times faster than what today's computers chug through. Quantum computers will be able to test billions of different alternatives or combinations all at the same time to find solutions to the world's knottiest problems from debilitating diseases to the climate emergency, solving problems we used to think unsolvable in months, weeks or even days.

There is much to celebrate but the risk of quantum computing may emerge quicker than the opportunities. These computers will also be able to decipher the RSA encryption and elliptic curve cryptography which is responsible for around 90% of today's crypto base. It's used all over the internet and keeps the digital world safe; is found in web browsers, keeps emails secure, enables banking transactions and controls our power grid and government communications.

"Both will be toast," warns Bill Munson, a research associate at the Institute of Quantum Computing at the University of Waterloo, Ontario, Canada. "These codes are based on multiplying very long numbers and then factoring it. It would take today's computers thousands of years to crack it, but when you have a computer that can do it in minutes or hours, you're in trouble." The quantum community estimates it is only eight to 15 years until a quantum computer exists that in the hands of a hostile government, "bad actors" or organised crime spells Armageddon for safely using the internet.

It's easy to see why treasury is worried. Data security is fundamental to handling payments; companies with long supply chains involving multiple partners and constituent parts are vulnerable while the collapse of modern-day smart infrastructure that runs factories, transport networks and cities holds unimaginable consequences. "Unless banks move to quantum resistant cryptography, it is possible that one day we could wake up and there won't be a dollar in any bank account in the world, but the bigger risk is that we will wake up and there will be no lights, power or transportation," says Catherine Johnston, a strategist and consultant at Chieftain Consulting. And even if the cryptography isn't broken, online systems will default to 'off' in an unsecure environment meaning systems may still be rendered inoperable, even if they haven't been hacked.

The sense of urgency grows given that threatening entities including organised crime are already recording encrypted data and storing it to decrypt later. Companies should act now because it is possible to steal data today ahead of the ability to crack it tomorrow, explains Jonathan Legh-Smith, Executive Director for UKQuantum, the voice of the UK's quantum industry. Corporate data is either data in transit,

flowing between partners and internal systems, or stored data where it sits within a company's own servers or data centre and both are at risk, he explains. "Companies need to assess how valuable their data is and over what timeframe. If there is an overlap between a quantum computer breaking into your data centres or tapping into your communications at some point in the future when your data is still valuable, you are at risk." He says strategy should focus on the lifetime data is valuable rather than trying to second guess or time the arrival of a quantum computer. "We don't know exactly when they will come into play, but quantum computers are inevitable."

The solutions

Happily, it is possible to prepare for this daunting new world by changing the encryption that keeps the internet safe. "We know what the fix is: change your crypto," says Munson.

Over the last five year, an international effort led by the US's National Institute for Standards and Technology, NIST, has identified a suite of cryptography algorithms that are deemed quantum safe. Still under development they will, at some point, be available to update into corporate and government systems. "We are close to having the products available – but they don't just crawl into our systems themselves," says Munson. Every company will have to replace its crypto in a time-consuming process that involves new levels of expertise.

Legh-Smith estimates the essential adoption of new post-quantum cryptography will take businesses "a number of years" to deploy once the new NIST standards are commercialised. However, he warns these standards are still drafts and it may take some time to iron out any issues or bugs in their implementation so there is a residual risk to businesses even after they are installed. He also points UK businesses towards **National Cyber Security Centre guidance on migrating to post quantum cryptography, PQC**.

Away from NIST's standards, a complementary solution to post quantum security is also coming on stream. Quantum key distribution (QKD) is a new way of sharing ultra secure symmetric keys, an existing form of encryption that can resist quantum computers. "Businesses can already use QKD as a way of enabling safe encryption now. In the future businesses will be able to deploy both PQC and QKD in their defence against quantum computers," says Legh-Smith.

Witness how HSBC is pioneering quantum protection in FX trading using QKD technology. The bank hopes its HSBC AI Markets platform powered by BT, Toshiba and Amazon Web Services (AWS) technology will mature into a commercially accessible and globally scalable solution to safeguard trades of any value from quantum attacks.

Still, in an added complication, current UK guidance focuses on PQC and advises against the use of QKD. Legh-Smith notes that this guidance is a number of years old and is at odds with many other countries that are actively deploying QKD witnessed in Europe (the EuroQCI project), the Republic of Korea (South Korean Telecom), Singapore (National Quantum Safe-Network), and of course China which is spending more than any other country on quantum research. McKinsey estimated that Beijing had announced a cumulative US$15.3bn in funding for quantum research, more than quadruple the equivalent US figure of US$3.7bn.

First steps to getting quantum ready

Even though businesses can't deploy new cryptographic models until the NIST process develops there is still much to do. Companies should begin by first identifying what crypto they use; assessing if it's vulnerable and what it is protecting. Next, they should list their most valuable assets or corporate crown jewels. This could be intellectual property or data; for an IT company it could be large language models, for financial services, personal data and financial records. For many corporates it is trade secrets like their manufacturing process, design or materials and what makes their business unique.

Companies' IT security teams will already know the cost of upgrading encryption, have chosen partners and consultants; understand their data and be keen to trial QKD. But getting quantum-ready also involves buy-in from the entire corporate function and C suite. This means easier approval of the required investment in people able to put together an inventory and assess the company's risk tolerance.

Re-tooling infrastructure could also be timed around necessary and routine upgrades in hardware and software and with an eye on the time-consuming nature of getting ready. "If the time it takes to install the new technology is greater than time you think it will be until we have a quantum computer, you should worry now," says Tim Spiller, Director of the Quantum Communications Hub at the Engineering and Physical Sciences Research Council.

"Companies and governments need to be prepared to spend money," adds Johnston. "There are relatively few people who are quantum trained so train your existing staff." She also suggests that treasury accept quantum readiness as a cost of doing business. "If your business is a target and you are not ready, you will be out of business if you are hit."

Companies can also use their influence to encourage their tech suppliers to get quantum ready. Corporations need to assess to what extent their suppliers can deliver quantum safe products and services, says Johnston. "If you are buying something that is not currently quantum resistant, ask the supplier if it will be upgradeable and when. Also, does the supplier have a cryptography migration plan that they are prepared to report against?"

Building awareness is one of the biggest challenges, but this is growing. In the UK over the last ten years, academic institutions, industry and government have invested around £1bn in a national quantum technology programme with government commitments to invest a further £2.5bn over the next ten years in line with the publication of its Quantum Strategy. Some of the world's biggest tech companies, including Google, IBM, Microsoft and Honeywell, are investing in quantum with an ecosystem of start-ups following in their wake. McKinsey estimates investors poured a record US$2.35bn into quantum start-ups last year.

Spiller concludes with a nod to the risk that these new quantum algorithms could be broken in the future in a cycle of repetition. "It is difficult to prove that someone won't develop new quantum algorithms that could break in the future – it's difficult to prove a negative." But he says this shouldn't be a cause for inaction now. "We have a route forward technologically that we know is robust. Now is the time for people to start to move towards this and make these changes."

'Hallyu' shifts perception of Korea's economy

Korea's cultural exports have gained international attention and modernised the image of the country and its economy. The impact of the Korean Wave – or 'hallyu' as it is known in Korean – may be more about perception than an actual difference in the contributors to Korea's GDP.

In 2012, people all over the world were gallop dancing and singing 'Gangnam Style', even though they weren't sure of the meaning of the Korean words. Psy's widely popular track was the first video to break one billion views on YouTube and is just one of the symbols of Korea's wildly popular creative industries.

Since then, Bong Joon-ho's Parasite became the first film in a foreign language to win an Oscar for best picture, and Korean pop (or 'K-Pop') groups like BTS and Blackpink have huge followings all over the world. Meanwhile, during Covid lockdowns the Netflix hit Squid Game attracted a massive international audience.

This popularity of the creative industries, known as the Korean Wave – or 'hallyu' – has transformed the perception of Korea to a country that is decidedly cool. The impact of hallyu on the economy, however, is limited. If you listen to K-Pop fans they may try to convince you the seven-member boy band BTS is the country's most important export and overshadows the contribution of the conglomerates – or 'chaebol'. The major contributors, however, remain very much in the traditional industries such as semiconductors, electronics, automotive and shipbuilding.

Martin Roll, a business and brand strategist an1d author of 'Asian Brand Strategy' tells Treasury Today Asia, "The Korean Wave modernised the face of Korea." Although the mainstay of the economy has not significantly shifted, hallyu has transformed what 'Made in Korea' means.

Joining the rich person's club

The rise of Korea's creative industries comes in the context of the country's rapid modernisation, taking Korea from one of the poorest countries in the world in the 1960s to the 12th-largest economy in the world.

Part of this rise, as John Walsh, Assistant Professor in Marketing and Communication at Shinawatra University in Bangkok, Thailand, includes Korea joining the Organisation of Economic Cooperation and Development – often described as the 'rich person's club' – in 1996. "It is the hallyu that has persuaded Asian countries at the societal level that Korea is really part of the developed, western world," Walsh writes in an academic paper.

The Korean Wave also enabled the country to bounce back from the Asian financial crisis of 1997, when it had to be bailed out by the International Monetary Fund, and quietened criticisms that Korea shouldn't have joined the OECD. Shin Song-bum, Minister – Permanent Delegation of the Republic of Korea to the OECD, writes in an editorial that the economic crisis provided Korea with an opportunity to overhaul its economy, which was when the hallyu was born. "The success story of hallyu is said to be one of those that eloquently testifies that it was the right decision for Korea to join the OECD."

The value of branding

Roll notes in a blog post how the effect of hallyu has grown massively, contributing 0.2% of Korea's GDP in 2004, which was around US$1.87bn to an estimated US$12.3bn boost on the Korean economy in 2019.

Roll, also CEO of Martin Roll Company, explains that if countries pursue a strategy of being a low-cost manufacturer, that position will eventually be eroded, and to add value they need to have a clear brand identity. Roll says hallyu has enhanced Korea's international image and changed the perception of 'Made in Korea', and the country has successfully established a distinctive edge. With the Korean Wave, all Korean producers benefit, in theory, because there is a more favourable perception of the country of origin.

In other estimates from the Korea Economic Research Institute (which were released in July 2023) between 2017 and 2021 the export of items like cosmetics, music and dramas, had an economic impact of 27trn won (~US$20bn) based on the 'production inducement amount', or the wider ripple effects of hallyu.

Jimmyn Parc, Associate Professor in the Department of East Asian Studies at the University of Malaya and a research associate at the Institute of Communication Research, Seoul National University, notes that when people discuss the 'impact' of the hallyu, this can encompass many things. One interesting point is that gaming – an industry that the government has frowned upon (because of concerns about youth spending so much time engaged in video games) – contributes the lion's share of the creative industry's revenue. "The gaming industry has had a huge impact on the economy but the government does not help this sector," notes Parc.

Parc is currently working on an academic paper that focuses on the brand image of hallyu and how it relates to the purchasing of other products, such as cosmetics. He is based in Malaysia and has looked at data from 2014 to 2022 on Malaysia's imports. "People always argue that hallyu has a positive impact on consumption of Korean products. We argue that if there is a positive impact then all the imports should be positive, however it is not the case. There are certain products that show a positive increase and some show a decrease – it

> The gaming industry has had a huge impact on the economy but the government does not help this sector.
>
> Jimmyn Parc, Associate Professor, Department of East Asia Studies, University of Malaya

depends on the products' quality. Hallyu is not the core factor that increases the sale," Parc tells Treasury Today Asia.

Parc explains that there are many different factors that go into the exports of Korean products, and people only tend to attribute hallyu to a rise in exports and ignore it if there is a decrease. "They only say it is because of hallyu when it is positive," he comments.

Also, Parc notes that if the impact of the K-Pop bands was so strong, then if BTS is promoting a particular smartphone it would be reasonable to expect those products to fly off the shelves. However, this hasn't been the case as LG found in 2018 when it paid BTS to promote its G7 ThinQ smartphone and it failed to increase the sales of the device. In 2021, LG withdrew from the smartphone market altogether. Samsung also wasn't able to leverage the popularity of the K-Pop group either with its Galaxy S20+ BTS edition and the multinational had to drop the price in many markets.

Government support for the sector

The government has lent its support to the Korean Wave (apart from gaming, which at one time it tried to curb with a curfew on when students could play), recognising that an improved perception of Korea will help its image overseas, and thus help its wider exports. Roll notes that the government has a budget of US$5.5bn to boost economic growth through its cultural industry. This effort is not dissimilar to other countries – the United States and the UK's film industries, for example, for many years have received subsidies from the governments in a bid to promote the country's interests abroad.

In a piece for the Joongang Daily, Lee Young-ryeol, Professor at the Seoul Institute of Arts writes that exports of K-Pop exceed the combined exports of products like televisions, refrigerators and washing machines. He argues that the government could do more to link up the efforts to ensure that the boost from hallyu can translate further into greater revenue share for other industries, such as tourism. The popularity of bands like BTS and Blackpink could be translated further into greater visitor numbers to Korea, for example, much in the same way as France has positioned Paris as a major tourism destination for luxury brands.

The Korean government has not always supported the creative industries, however. During the leadership of Park Chung-hee in the 1960s there were many restrictions placed on content and the work of creatives. In 1996 censorship was lifted, which resulted in an explosion of creative energy.

More recently, there was a time, explains Parc, that the government was not supportive of the K-Pop industry, especially when it was dominated by hip hop artists with dyed hair and loose pants, who were deemed to be unsuitable role models. However, this attitude changed when they realised the popularity of the K-Pop and saw the potential from an economic point of view. On the one hand the government is seen as supporting the hallyu and being critical to its success, and on the other they can be viewed as exploiting the industry and claiming credit for the achievements of others.

Anecdotally, Parc says some entertainment companies are reluctant to be seen to be taking money from the government because of the anti-chaebol sentiment that may be directed at them. The chaebol, the large multinational brands in Korea, have been subjected to such ill-feeling when the common people perceive that they have been profiting at the expense of government – ie taxpayer's – money. Parc explains that many of the entertainment companies in this sector are large companies and they don't want to be seen as taking government money for this reason.

Korean dramas did receive money from the government in the early days because many of them were made for public broadcasters. That relationship evolved over the years as the industry changed and regulations were eased. A rule change meant that chaebol could fully own their own satellite channels and this opened up new sources of funding for production. Chinese investment in Korean productions followed and later Netflix also started funding productions.

The wielding of soft power

Although the hallyu may not have a sizeable direct contribution to the Korean economy, it has enabled the country to exercise soft power, a term – which Roll explains – was first coined by political social scientist Joseph Nye to describe how countries wield power through a positive image rather than by force, such as associations of American 'cool' with Marlboro cigarettes or Coca-Cola.

Other countries, of course, have become known for their film industries – India has its Bollywood, and Hollywood has long been a dream factory, points out Roll – they have been exporters of dreams.

When it comes to the argument that Korea is exerting its soft power through such productions, Parc points out that often the depictions of Korea – such as in Squid Game or in Parasite – are negative and are critical of the region, and not the kind of images that would be portrayed if there was a concerted effort to put itself in the best light.

Despite this, however, there remains a huge international appetite for the consumption of Korean cultural exports, even if their actual direct impact on the economy is not as large as the attention that is given to them. In the past, young Koreans would have consumed American products – smoking Marlboros and drinking Coca-Cola – and watched Hollywood films to learn English and the ways of the Western world. Now it is the other way round; Korean cultural exports have gained such an international following that people all over the world are clamouring to learn Korean, to learn about Korean culture – and how to dance in Gangnam Style.

New China+1 landscape takes shape

Multinationals have been pursuing China+1, or China+n strategies for a number of years in a bid to reduce their reliance on China. Now in the post-Covid era, many of those strategies remain, albeit for varying reasons, and a new landscape of beneficiary countries has taken shape.

The description of China as 'factory to the world' may soon come to an end, as many other countries in Asia – and the rest of the world – are taking on the manufacturing that was once done in China. For years multinationals have pursued China+1, or China+2 strategies (where they source from one or two other countries aside from China) to diversify their operations. These strategies were put in the limelight during the disruption of the Covid pandemic, and now the long-term effects of such moves are becoming solidified – with a number of countries benefitting from the move away from China.

It wasn't just the pandemic that prompted the shift – worsening US-China relations have been cited by many observers as a driver towards other countries. And the results of that became apparent in 2023 when Mexico overtook China as the largest trading partner of the United States. This has been put down to the impact of increased tariffs on Chinese imports to the US. One consequence of this, note Luis Torres and Aparna Jayashankar, in a paper for the Federal Reserve Bank of Dallas, is that there has been a steep rise in Chinese foreign direct investment in Mexico. Although the share of Chinese investment is very small, it has been rising quickly as Chinese companies seek to get closer to the US market and find a way of avoiding the 'Made in China' label.

There are several reasons why multinationals are moving their operations away from China. Aside from the rising trade tensions between China and the United States, the cost of production has risen as China has become a richer country, which has had a knock-on effect on labour costs. Meanwhile, the impact of the one-child policy in China also means that overall, the workforce is ageing.

For companies that need to nearshore to markets in North America, investing in Mexico makes sense. However, there are many others that are still targeting the Chinese consumer market and wish to continue with their manufacturing in Asia so they get the benefits of proximity to China.

Keeping production in Asia

Chng Boon Huei, CEO of Flexi Versa Group, an electronic manufacturing solutions (EMS) company, notes in a blog that China as the 'world's factory' worked well for many multinationals, and developed markets like the US and Western Europe were keen to outsource production to China instead of doing it themselves. In recent years, however, that has started to change as the costs of doing this increased. And then there was the pandemic, which wreaked havoc on

global supply chains and forced many to reconsider reliance on China. Chng writes that many are choosing a China+1 strategy to reduce dependence on a single market, but it still makes sense for them to stay in the region. "For many global brands China is now also a considerable, and growing, market for their products, so there's a clear need to maintain some manufacturing in the region."

China+1 strategies, or China+n (where 'n' is any number of additional countries that a multinational may choose as an alternative to China) have been in place for many years, but it was the shock of the pandemic that brought them into sharp focus. Sumanta Panigrahi, Head of Trade & Working Capital Solutions, Asia North, Treasury and Trade Solutions, Citi, comments that the supply chain disruptions from the pandemic were unprecedented and had a significant impact on the financial resilience of companies. This has led many corporates to reconsider their supply chains and have less concentration risk. "Coupled with increasingly stringent tariff regimes, geopolitical concerns, and disruptions to shipping lanes, the risks associated with having a concentrated supply strategy in China outweigh cost benefits. Supply chain diversification continues to be a board-driven, secular mitigation strategy being followed by companies," he tells Treasury Today Asia.

China for China strategies

Now that the pandemic is in the rear-view mirror for most companies and countries, the diversification strategies that were put in place during that period remain and it is becoming clear which countries will stand to benefit from this macro shift over the long term. Some observers have commented that in addition to China+1, many corporates will continue to employ a 'China for China' strategy where they continue to maintain operations in the country to support the production of goods that are specifically for the Chinese consumer market. They also point out, that all things considered – such as the level of productivity and capacity of the infrastructure – China is still a very cost-effective place to maintain operations.

The 'China for China' approach, however, has been questioned by observers such as Alex Capri, Research Fellow at the Hinrich Foundation and Senior Lecturer at the National University of Singapore, who argues that the 'China for China' model is now coming to an end. Capri points to the complexities of local regulations for international companies, such as those regarding data security and data privacy, as well as increased competition from local Chinese companies which means that a 'China for China' strategy is no longer viable for some foreign corporates. In a whitepaper published in October 2023 on the topic, Capri writes, "In the 21st century, geopolitics and direct competition with Chinese partners, which by now have grown increasingly sophisticated by indigenising domestic innovation based on foreign know-how, have put the in-China-for-China model under severe strain or even killed it."

The post-pandemic landscape

As these various strategies are employed and post-pandemic landscape takes shape, there are a number of key markets in Asia that stand to benefit from this shift. India, in particular, has emerged as a key beneficiary. Typically, developing economies follow a trajectory of manufacturing and as they increase their GDP [gross domestic product] the economy evolves to other areas such as services, technology or knowledge-based industries. For many years it seemed as if India had skipped the manufacturing stage and opted to pursue the service industry as well as specialising in information technology (IT) instead. A focus on manufacturing, however, seems to be gaining renewed attention in India. At a Milken Institute event in May 2023, Pravin Agarwala, Co-Founder and Group CEO of BetterPlace, a Indian company that provides human resources software, said, "When you're thinking about India as an opportunity, think not only from the IT point of view which is the driving force of course, but think from a manufacturing point of view as well, because that's where the second-largest driving force is going to be."

As well as India, ASEAN [the Association of Southeast Asian Nations] region also stands to benefit from the China+1 strategies as many corporates wish to continue with operations in the region that are still close to China. Mayank Gupta, Head of Trade and Working Capital Solutions, Asia South, Treasury and Trade Solutions, Citi, comments: "We see significant investments into India and ASEAN markets across textiles, semiconductors, automobiles and components, and electronics manufacturing services. As an example, the Apple ecosystem, which was previously largely China-based, has largely been replicated in India."

Gupta also says, "In Asia, India has been a key beneficiary of diversification strategies, along with markets like Vietnam and Malaysia in ASEAN. In some cases, supporting factors for beneficiary markets include proactive government policies and incentives, the availability of skilled manpower and infrastructure, and the ease of doing business."

'Make in India movement'

India has been driving a 'Make in India' push for a number of years, since Prime Minister Narendra Modi launched a campaign in 2014. The prime minister's office states that policymakers have debated for years how to make India a global manufacturing hub and Modi spurred the initiative to facilitate investment, foster innovation, enhance skill development, protect intellecutal property and build best in class manufacturing infrastructure. Now the effects of such a campaign are taking root and India has been described by many observers as having a great opportunity to seize the manufacturing that would otherwise have been done in China. Ajay Banga, the former CEO of Mastercard and now the President of the World Bank, commented in July 2023 on how India had a window of opportunity with the China+1 strategies of companies. "I think India's opportunity currently is to cash in on the 'China plus one' opportunity," he was quoted as saying by Reuters.

This echoes the sentiments of Amit Baraskar, Vice President and Head – Treasury, Thomas Cook (India) Limited, which were expressed recently in a **Corporate View profile** for Treasury Today Asia. He explained that the economic environment is improving in India and the country is back on course – after the pandemic – to reach Prime Minister Modi's target of becoming a US$5trn economy. Baraskar also commented that India is targeting becoming the third-largest economy in the world by 2028. "Slowly and steadily, India is becoming a world leader," he told Treasury Today Asia.

> We see significant investments into India and ASEAN markets across textiles, semiconductors, automobiles and components, and electronics manufacturing services.
>
> Mayank Gupta, Head of Trade and Working Capital Solutions, Asia South, Treasury and Trade Solutions, Citi

The attention on India has also been highlighted in press coverage of key announcements by major manufacturers. For example, Foxconn, the Taiwanese electronics manufacturer which is a major supplier to Apple, as well as Pegatron (another Taiwanese Apple supplier) have stated they intend to move their manufacturing to India. Pegatron, for example, has been steadily increasing its production outside of China and is expected to focus on India and Vietnam as key locations in the future. Pegatron has increased its presence in other countries in recent years – expanding in Indonesia in 2020, Vietnam in 2021 and Mexico and India the year after, according to news reports.

Some news reports point to the potential of India and how it may be able to replace China as 'factory to the world'. Apple has made several announcements about its iPhones and manufacturing in India – for example, some of the production of the iPhone 14 shifted there in 2022. And in December 2023 it was reported that Apple stated its preference for batteries for the iPhone 16 to come from Indian suppliers.

The rise of the 'ASEAN-six'

Meanwhile, elsewhere in Asia, some key markets in ASEAN have also emerged as key beneficiaries of multinationals' shift to China+n strategies. In July 2023, Agnieszka Maciejewska, Associate Director, Models and Scenarios, Global Intelligence and Analytics, and Anton Alifandi, Associate Director, Country Risk, at S&P Global Market Intelligence, wrote about the risk outlook for companies that are moving production to these markets. Initially, they state, corporates moved to China+1 to pursue lower costs but now the motivation is more about diversification and protecting themselves against the negative impact of worsening US-China trade relations. "South-East Asia's proximity to mainland China, its economic partnerships with the US and mainland China, and relative political stability – Thailand being a notable exception – make the region a preferred China Plus One destination," they write.

The 'ASEAN-six' economies – Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam – are emerging as economies that are trading well with both China and the US. They are also part of the Indo-Pacific Economic Framework for Prosperity (IPEF) that aims to facilitate trade with the US and encourage US foreign direct investment. "ASEAN countries view their participation in the IPEF as a way to be included in the broader US strategy to minimise its dependence on mainland China," Maciejewska and Alifandi write. And they add, "The ASEAN-six countries are generally neutral toward US-mainland China strategic rivalry and instead seek to maximise economic relations with both countries."

These ASEAN countries are a key part of corporates' China+1 strategy, and the US has encouraged the expansion of its multinationals into the region. ASEAN's trade with China is now greater than that with the US. If ASEAN economies start to lean towards the US in favour of China, however, this could have an impact on their trading relationship with China. Jeffrey Reeve, Associate Professor with the US Naval War College at the Naval Postgraduate School in Monterey, California, writes in a piece for Global Asia in September 2023: "Washington's support for private sector activity in South-East Asia is particularly noteworthy because all the main C+1 [China+1] recipient states – Indonesia, Malaysia, Thailand and Vietnam – are first-tier strategic priority states for the US in the Asia Pacific. While these countries may welcome closer security ties with the US, they are equally aware that such ties could complicate their relations with China."

The Tiger Cubs

Chng of Flexi Versa Group, comments that there has been a resurgence of the 'Tiger Cub' economies – Malaysia, Thailand and Vietnam – which have been benefitting from China+1. As the CEO of an electronic manufacturing company that is based in Malaysia, he has seen this first-hand.

For corporates that opt for the Tiger Cub economies, they are able to effectively diversify away from their dependence on China and they also get the security and the benefits of continuing to manufacture in Asia. He argues the Tiger Cubs have much to offer. "They do not attract the political interest of the rest of the world, and hence are less likely to suffer shifts in tariffs or even trade sanctions. They benefit from their proximity to China and can leverage much of the supply chain used by Chinese manufacturers. They do not have the volatile labour rates of many regions of China," he writes.

The impact on Chinese corporates

It's not just foreign – or non-Chinese – multinationals that need to consider their reliance on China; it's also Chinese corporates that have diversified. This is the case with the increased foreign direct investment in markets like Mexico that overcome the negative impact of tariffs on Chinese imports into the US, for example. As well as Mexico, Chinese companies have also been expanding their operations elsewhere in Asia – much in the same way as other corporates – to markets like India and ASEAN. This was highlighted with companies like Chinese battery maker Desay that have recently expanded to India.

Panigrahi at Citi comments, "Chinese corporates are also diversifying their supply chains with investments in capacity outside of China. Dependencies and efficiencies have been established over decades between multinationals and Chinese suppliers and they continue to be valuable. Hence, the strategy is focused on diversification for resilience rather than completely moving away from China."

Digital advertising, marketing and technology services company S4 Capital Group has achieved a large annual saving by introducing a structured, system-based process for managing and settling intercompany activity.

When Christof Nelischer joined S4 Capital Group as Group Treasurer in June 2022 (the first time the company had appointed a treasurer since it was established more than four years earlier after having grown into a billion-pound business) he found a nascent Treasury function. The company had no treasury-specific technology – no TMS, no electronic dealing platform, and no netting capability. Having chosen GTreasury Netting as its intercompany netting solution, Nelischer set about implementing the company's netting programme with an emphasis on speed and follow-through.

"The strategy established our small but nimble treasury team as the business partner within the organisation that handles all treasury activity," he says. "Keeping system access within treasury only in the first iteration eliminated the significant time and cost overhead that organisations usually expend on rolling out any new system through personnel training, managing user access, etc."

The team worked with S4's divisional controllers, who had no previous experience with netting systems, to establish the process for providing intercompany netting information using the upload template format. Within two days those controllers had prepared a data upload, converted to the desired format via a spreadsheet-based tool, that was then uploaded into the netting solution.

"To test the validity of this initial experiment we treated the resulting netting statements as if they were manually created and conducted a manual reconciliation process to check the system's work," says Nelischer. "Virtually no errors were found so divisional management signed off on the statements."

S4 Capital Group's Group Treasurer refers to a uniquely pragmatic and streamlined strategy whereby the company skipped every aspect of project and institutional overhead in the first iteration that would have slowed it down. The netting programme alone leads to the natural elimination of a high proportion of intercompany FX positions, which accounts for the bulk of its operational FX exposure. The net FX position is then traded out to the market by treasury using an electronic dealing platform.

In terms of risk management, the netting cycle makes for discipline in managing positions and reduces risk by shortening and streamlining the process cycle. According to Nelischer, the cost efficiencies of eliminating FX dealing and consolidating FX more than cover the cost of the technology.

"The economics are a no-brainer," he says. "Even if we had changed our mind and pursued a different technology after our first successful runs with netting, we would have been ahead on money and have paid for the education of introducing a programme. It was worth it to spend the money and make progress on implementation very quickly."

Even with conservative estimates, S4 Capital Group reckons intercompany netting delivers savings of £1m per year.

"While the manual work of performing intercompany netting without technology assistance was not fully done here, the impact of our current treasury automation would have been transformative for the workload," adds Nelischer. "If you look at that workload in relation to the volume of data being processed, controlled, managed and reconciled, shifting from manual to automatic would mean major savings."

Daniel Cugni, Managing Director of GTreasury Netting notes that intercompany netting typically reduces companies' transaction costs by up to 70%. "They also save on the spread paid to banks because FX trading is no longer done at the subsidiary level," he adds. "Non-matched FX is aggregated to larger volumes and dealt at better rates by the treasury centre."

Then there are non-financial benefits such as improved communication between entities for matching or disputing invoices and better visibility over future flows, which allows for better management of cash flows and credit lines and feeds into other areas such as cash flow hedging. Additionally, intercompany netting simplifies monthly reconciliation processes.

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Risk management wasn't meant to be easy

Having faced a dynamic macroeconomic environment and US bank failures, corporate treasurers are bracing themselves for what 2024 has to offer in the risk management sphere.

The past year has thrown plenty of challenges treasurers' way – rising interest rates and inflation, increasingly stringent regulatory requirements around anti-money laundering (AML) and the related know your customer (KYC) rules, as well as wars and bank collapses. Managing risk in such a dynamic environment is not easy.

Given the spate of US bank failures, counterparty risk has come under increased scrutiny during the past year. In March, Silicon Valley Bank (SVB) collapsed, becoming the largest US bank to fail since the 2008 global financial crisis. Two days later, Signature Bank closed. Further bank collapses followed throughout the year as concerned clients withdrew their funds, creating a run on the banks: First Republic Bank in San Francisco, Heartland Tri-State Bank and finally Citizens Bank.

Damian Glendinning, Chairman of the advisory board of consultancy CompleXCountries, says treasurers have generally looked again at their counterparty risk management processes. "Overall, the issues in the US vindicated their approaches: they showed the value of daily balance reporting and cash sweeping, so corporate treasurers immediately knew exactly what their exposure was," he says. "Also, most counterparty limit management processes had limited the risk."

Glendinning identifies four lessons that corporate treasurers learned during the US bank collapse crisis. First, in some cases, newly acquired subsidiaries had not been brought into the daily balance reporting, cash sweeping or counterparty risk management processes. "These were the cases where surprises happened, and information on the exposure was not immediately available," he notes.

Second, it became necessary to try to halt payroll or supplier payments being made to employees or suppliers with accounts in these banks. Treasury departments did not necessarily have the information to do this immediately, he says, although they were able to work with human resources and procurement departments to react quickly. It was also important to stop customers paying invoices into accounts with SVB, for example.

Third, in the case of SVB, some companies had indirect exposures they had not picked up in their processes, especially via HSBC in London where payments to some suppliers went via that institution to SVB. (In the immediate aftermath of the SVB collapse, HSBC UK Bank plc acquired Silicon Valley Bank UK Limited for £1.)

The final lesson from the US bank collapses, notes Glendinning, was that it was not clear what more could be done to identify this kind of exposure before the collapse. "However, most treasurers have further restricted the amount of cash they hold in small regional banks." None of these measures is specific to Asia – but the same reactions apply, especially for the subsidiaries of multinational corporations in the region, he adds.

The 2023 AFP Liquidity Survey found that 48% of treasury departments appear focused on concentrating their organisations' partnerships with larger banks for services to protect against instability with banking partners. Himashi Soriano, Managing Director, APAC Association for Financial Professionals (AFP), says the survey also found that treasurers are doing more due diligence regarding bank safety and soundness. "Organisations may be showing signs of diversifying their cash and short-term investment allocations, and so relationships with banking partners remain crucial," she says. "Banks play a key role in supporting organisations in their cash and short-term investment strategies by providing them with critical information on economic indicators and trends. Treasury practitioners have faced various challenges in an unsettled economic environment. Unable to accurately predict the economic environment, organisations are more likely to seek out their banking partners for guidance and advice."

The AFP survey, which was underwritten by Invesco, found that cash and short-term allocation to bank deposits was down eight percentage points compared to the previous last year – the lowest rate in four years. "Concerns about the banking crisis have led organisations to move their short-term investments into Government/Treasury money market funds, treasury bills and Agencies," says the survey.

With rising interest rates and inflation, macroeconomic risk is also a significant concern for treasurers. In its October 2023 Regional Economic Outlook for Asia and Pacific, the International Monetary Fund (IMF) observed that inflation in China had remained low, "in sharp contrast to its peers". Average inflation in the country had been lower than before the pandemic. Elsewhere, the persistence of core inflation is higher in Asia Pacific advanced economies than in advanced economies in the rest of the world. The persistence of inflation for Asia Pacific emerging economies are slightly lower than those for peer economies in the rest of the world, but not significantly so, the IMF says.

In September, the Asian Development Bank's (ADB's) Asia Bond Monitor warned that governments and central banks in emerging East Asia needed to stay vigilant to guard against potential financial risk associated with higher interest rates. Softening inflation in the past several months had allowed most central banks in the region to hold off on further interest rate hikes, and some have started lowering rates to boost economic growth, says the ADB. The Monitor noted that a recent shift away from interest rate hikes, along with sound economic fundamentals, helped support a slight improvement in financial conditions in most emerging East Asia markets between June 1st and August 31st. Interest rates in the region remained elevated. Higher borrowing costs had contributed to debt stress and bond defaults in some Asian markets during the few months leading up to September.

Soriano says AFP's research shows that treasury professionals consider macroeconomic risk "to be one of the most challenging risks to manage and we anticipate that macroeconomic risk will have the greatest impact on organisations' earnings in the next three years". To help reduce their organisations' vulnerabilities to various external threats, treasurers can take the following three actions, she adds:

- Achieve efficiency. The more a company can automate treasury tasks, the more accurate and timely forecasts and positions will be, allowing better decisions to be made. At a time when companies' working capital and liquidity will be under pressure, all efficiency gains will help build operational resilience.
- Maintain liquidity. Adopting strategies to streamline the use of liquidity internally like better use of pooling opportunities will reduce net borrowing requirements, protecting the company against the adverse effect of rising interest rates. Managing working capital more effectively, potentially in partnership with key suppliers and/or customers, can help to manage risk, thereby reducing costs to boost sales and profitability.
- Manage vulnerabilities. A clear financial risk management policy, endorsed by leadership, will help manage the effects of market volatility and limit the impact on business costs. Treasurers can work with the wider business to adopt strategies that enhance the use of working capital and liquidity.
- Inflation and rising interest rates have increased the pressure to do effective cash management, notes Glendinning. "There is rising interest in supply chain financing products, as suppliers ask to be paid sooner, while customers look to extend payment terms. While there is concern about customers' ability to pay, this does not yet appear to have resulted in significant payment delinquency or a reduction in customer credit limits."

"A robust and dynamic cash flow forecasting process to understand working capital and investment capital requirements helped Nestlé Lanka to navigate the tumultuous economic conditions it faced during 2022-23. Sri Lanka suffered an economic crisis with an acute shortage of forex, electricity and fuel. This posed a significant business continuity risk in executing food and beverage manufacturing processes to meet consumer demand.

"Understanding the changes in the operating environment and proactive collaboration with non-finance business partners are imperative for value creation," says Manosh Kulasena, Head of Treasury at the company. "One solution will not suffice when the risks are multidimensional. All teams orchestrated multiple solutions in a dynamic environment."

The company's solution included an intergroup foreign currency borrowing of US$45m, which was structured to navigate between liquidity and profitability during challenging times.

Multiple solutions to manage FX revaluation losses on foreign currency borrowings amidst steep currency depreciation were also formulated and risk management strategies mitigate the adverse exchange impact on its foreign currency borrowings by around 70%. In April, Jonathan Teh, Regional Sales Head of Global Banking Multinationals, Asia Pacific, Global Payments Solutions at HSBC, wrote that after years of low interest rates, treasurers were coming to terms with a sharp series of rate hikes. The US interest rate hikes of early 2023 was the "fastest shift in monetary policy since the 1980s" and for some corporate treasurers, the new monetary policy conditions presented significant cash management challenges. "This is especially true for companies with high levels of debt that must now manage higher repayment costs. Another group of companies that need to adjust are fast-growing technology businesses that in the past could rely on fresh rounds of funding to maintain their cash position."

Companies in this situation should look closely at their liquidity situation and debt obligations so that they can assess how much cash they have available, as well as their future outgoings. "For companies with geographically dispersed operations, centralising funds can help ensure that the business is able to fully utilise its money, while providing broader benefits to operational efficiency."

Another challenging issue for corporate treasurers is AML and KYC compliance. AFP's Soriano says treasurers are always looking to make sure that they are compliant, but the process can be burdensome. "Having clear processes in place can help reduce risk and enhance efficiency." She recommends a number of ways to manage the issues corporate treasurers face:

- Supporting the procurement process and knowing that verified settlement instructions are in place before any payments are due to be made.
- Keeping full and accurate records of all KYC assessments so that queries from banks and other parties can be resolved quickly.
- Checking sanctions lists prior to payments being released.
- Having clear payments procedures that cover all operational issues including how to verify changed settlement instructions.

Glendinning says KYC "continues to be a nightmare for both banks and their clients. Even when corporates use central repositories, banks are often reluctant to go to pick up documents from there, and different parts of the same bank continue to require the same document, or have different requirements." Moreover, there continue to be exposures with banks requiring sensitive personal data, such as passport copies or utility bills for bank signatories: this data is often transmitted and stored in unencrypted systems, and can be in violation of data protection laws.

"The situation on AML seems to be slightly better: most companies screen customers and suppliers against the lists of sanctioned counterparties, and have introduced sanctions training sessions for relevant staff. Many corporates are now wary of payments to or from people or entities whose names are likely to trigger alarms in banks: they often reach out proactively to the bank to avoid potential misunderstandings."

When it comes to managing foreign exchange (FX) risk, Glendinning says the "basic principles" have not changed, although the rising cost of hedging has led in some cases to a reduction in the level of hedging. The renminbi has been an international currency for a long time, he notes, and the "only question" now is whether to hedge it onshore or offshore. "Onshore hedging is usually viewed as being cheaper, but it carries with it constraints due to exchange control requirements. Offshore hedging can be done in the CNH market or via NDFs: both are liquid, though they can be more expensive than the onshore CNY market. There is no evidence that exchange controls in China are being tightened."

Treasury in the TMT sector: balancing costs and growth

In 2024, technology, media and telecom (TMT) firms will face the dual challenge of keeping costs under control, while continuing to invest in growth and harness new opportunities. As such, treasurers of TMT companies will play an important role in helping to achieve that balance.

Until recently, the business environment was one that enabled TMT companies to focus on growth almost at any cost. In the low interest rate environment that followed the global financial crisis, capital was cheap and readily available, especially for a sector as attractive as TMT.

But with the abrupt change in the environment triggered by the pandemic, the sector came under pressure. At the same time, with lockdowns fuelling a shift to remote working, both consumers and businesses rapidly embraced formats which required investment in digitisation. TMT companies had to adjust quickly to secure the resources needed to meet that demand.

Fast forward to today, and a key question in 2024 will be how TMT companies can meet the pressing need for operational efficiency, while at the same time securing the resources required to invest in future growth and keep pace with technological innovations. Treasurers, who are already playing an increasingly strategic role within their organisations, will need to be agile to support this balancing act.

Balancing cost management and growth

The year ahead will bring both challenges and opportunities for firms in the TMT sector. For one thing, the ongoing challenge of inflation and an elevated interest rate environment is likely to have an impact on consumer behaviour and companies' IT spending patterns. But despite near-term headwinds and subdued economic momentum, TMT companies will also be looking to take advantage of growth opportunities.

Going for growth

Where growth is concerned, companies will be looking to access "the pockets of growth that are out there," says Vinai Krishnan, Global Head, Technology, Media and Telecom Banking at Standard Chartered. "Companies are venturing into new markets across ASEAN, the Middle East and Sub-Saharan Africa," he notes. "This is a trend that Standard Chartered is excited about, and well positioned for."

The sector will also be shaped by tailwinds, including significant evolution in technology as well as investor optimism. "We are at an inflection point when it comes to adopting new technologies such as 5G on the telecoms side, the continued growth of AI and in the medium term, quantum computing," says Krishnan.

While AI and machine learning have been around for decades, there is a growing interest in how both consumers and enterprises can use AI to achieve productivity gains. At the same time, says Krishnan, "we are seeing the disruption of traditional business models." In particular, TMT firms will be seeking to recalibrate their resources efficiently in order to drive innovation and R&D, harness opportunities for M&A as well as diversify their products, services and end markets.

Managing cost pressures

But in this competitive environment, companies will also be facing very real pressures around the need for supply chain resiliency and diversification. Considering the macroeconomic and geopolitical climate, firms will need to focus more closely on streamlining their operations and optimising expenses to remain competitive and invest effectively in emerging technologies.

"Leveraging data analytics and technology such as AI is also going to be key when it comes to driving productivity and efficiency," says Krishnan. "The firms that are going to win are the ones that can show efficiency on cost and create those operating models – that's going to be a critical differentiator."

As such, 2024 is likely to bring a greater focus on the role of the treasurer, as well as on strategic sourcing and procurement. "There will also be a continued focus on liquidity – it's going to be really critical in the next couple of years to make sure that balance sheets are highly liquid, and that capital is unlocked from all possible sources," Krishnan predicts.

Hot topics for TMT firms in 2024

- **Edge AI:** while generative AI may have been the headline story in 2023, the rapid development of edge AI – which combines edge computing with artificial intelligence – is likely to be a major focus in 2024. This is likely to include the use of AI on form factors which are widely used by consumers, and as such will have implications for the entire value chain.
- **Cybersecurity and regulation:** the cyber threat will continue to be top of mind, while threats related to cybersecurity will continue to unfold. At the same time, regulatory developments will be front and centre.
- **ESG:** TMT companies will be looking for ways to make sure that their growth is sustainable, and that it comes from climate-friendly and carbon neutral sources.
- **Expanding into new markets:** many TMT firms will be setting their sights on overseas expansion, with emerging markets often offering particularly attractive opportunities for growth.

Role of the TMT treasurer

With a vantage point that spans different functions across the organisation, together with expertise in risk management, treasurers in the TMT sector have an important role to play in supporting different business functions. As such, Krishnan predicts the role of the treasurer is likely to be particularly critical in 2024.

"Treasurers will play a pivotal role when it comes to achieving the right balance between managing costs to satisfy near-term market pressures, while at the same time continuing to invest in and support long-term growth," he says. "Inherently, treasurers are effective risk managers, and I think their expertise will be invaluable in helping companies navigate these uncertain times."

Krishnan adds that treasurers can provide a variety of tools that will play an important role in supporting TMT firms in the coming year. "The first is strategic financial planning and collaboration with business leadership – allocating financial resources optimally is really where treasurers can add most value," he comments. "Treasury teams have a great vantage point when it comes to having touch points across the organisation, and cross-functional relationships and expertise."

Treasurers will continue to work with business leadership to align business objectives with their companies' longer-term strategic goals. At the same time, they will help to balance cost management with investments, while unlocking liquidity and identifying and mitigating financial risks such as currency fluctuations, interest rate changes and credit risks.

"And of course, they will help to maintain financial stability – which is going to be more critical than ever – through capital structure optimisation, and by enforcing discipline around budget and performance monitoring," Krishnan points out.

Treasurers can support their firms in a number of ways, such as:

- **Providing strategic leadership** – treasurers increasingly have much to offer as strategic leaders within the business, not least because of the skillsets they offer. With the prospect of continuing financial uncertainty and economic volatility, treasurers have a key role to play in helping manage risks within the organisation.
- **Supporting decision making** – at the same time, core treasury topics, such as liquidity management, are also now squarely positioned as a business leadership priority. "Business leadership is increasingly looking to maximise efficiencies and liquidity to create room for investment and growth," says Krishnan. "The strategic decision-making and insights that treasurers provide will continue to be that much more important."
- **Communicating with stakeholders** – Krishnan notes that treasurers have much to add when it comes to communicating with stakeholders, including board committees as well as maintaining the confidence of investors and lenders in the current environment.
- **Supporting expansion into new markets** – treasurers have a critical role to play in supporting their companies as they expand into new markets, by helping firms understand the local landscape across areas such as potential inorganic growth options, FX risk, counterparty risk and payments. Treasurers have much to offer in helping their companies navigate local requirements and remain compliant with regulations.

Choosing the right partner

Overseas markets may offer a lot of promise when it comes to supporting top line growth and building supply chain resiliency. However, these markets also come with numerous challenges and local nuances – and the right banking partner can play a vital role in helping companies demystify some of these nuances.

"A global banking partner like Standard Chartered can really help organisations that are looking to tap into some of these avenues of growth – whether that's by providing access to global financial networks, identifying inorganic options, delivering valuable insights from the discovery stage to execution, ensuring that funding is available, or providing an overview of the regulatory and business environment in these markets," says Krishnan.

He notes that the ability to provide "creative and sophisticated financial products and services" across areas such as foreign exchange risk management, cross-border payments, trade finance, working capital and collections is particularly valuable. "The ability for partners to deliver that, while having a standardised platform across various markets, is going to be really critical for treasuries to make sure that they are scalable and sustainable," he adds.

As such, treasurers are looking for banking partners that have a strong understanding of their businesses, including the growth areas and markets on which they are focusing. In today's environment, key differentiators include local expertise, a standardised platform across markets and digital capabilities.

"Regional bank failures in the US earlier this year heightened the focus on sound risk management and the counterparty strength of banking partners," Krishnan adds. "In addition, a bank's ability to support corporates through their sustainability imperatives – advisory and financing – is going to be important as well."

How can Standard Chartered help?

At a high level, says Krishnan, Standard Chartered is in the fortunate position of banking "some of the most exciting clients across the most dynamic markets on the planet." He adds, "We understand these markets intimately, and have built standardised operations and delivery across markets in Asia, Africa and the Middle East."

Standard Chartered has supported numerous TMT companies across these regions in activities such as financing, FX risk management and payments and collections. The bank also provides firms with treasury advisory across areas such as new market expansion, capital structure, benchmarking and liquidity options. Notable examples of these collaborations include:

- Helping an **Asia-based tech distributor** set up operations and manage FX risk in the Middle East in response to market expansion by OEMs.
- Partnering with a **leading data centre company** to help assess acquisition finance considerations and funding and FX risk hedging operations options across key markets in Sub-Saharan Africa and Asia.
- Helping a leading **US-based internet company** understand the capital, FX risk management, payments and collections landscape in key Sub-Saharan Africa markets. Standard Chartered also worked with the company's treasury, legal, business and payments partnerships teams to help position the business for success in restricted markets.
- Supporting a **large Asia-based manufacturer** with advisory support and solutions relating to equity flows, working capital and FX risk management in India.
- Helping a **large Asia-based telecom operator** to change its mix of debt in Africa. This was achieved by putting in place flexible credit facilities which enable different entities to draw down either in local currency or in foreign currency, in line with the company's capital requirements.

Overall, says Krishnan, the bank is focused on bringing its local expertise, balance sheet and capabilities across risk management, trade finance, payments and collections to support companies across different markets. "This is the case for companies that are looking into restricted markets – but we are also increasingly supporting Asian and US companies in the push for nearshoring," he adds. "So the bank is playing a key role as the provider of services, partnerships and advisory services across the globe."

TMT treasurers: adding value and supporting growth

Vinai Krishnan, Global Head, Technology, Media and Telecom Banking, explains how treasurers can add value in the year ahead.

How would you describe the outlook for the TMT sector in 2024?

On the one hand, the uncertain macro conditions, such as inflation and the elevated interest rate environment, can certainly have an impact on consumer behaviour and enterprise IT spend. But on the other hand, there is plenty of technological evolution and innovation pressure, not to mention genuine investor optimism and interest in the sector.

What will TMT companies be focusing on in the coming year?

It's really going to be about balancing operational efficiency in the face of near-term margin pressures, while creating the resources to invest in future growth and keeping pace with the innovation and investment needed in this competitive environment.

What role can treasury play in helping TMT firms thrive in this environment?

Inherently, treasurers are very effective risk managers. Their expertise will be invaluable in helping companies navigate these uncertain times and invest in growth. Treasurers will continue to work with their business leadership to align business needs and plans with companies' longer-term strategic goals.

How can treasurers support their firms' expansion into new markets?

The expansion into new markets is motivated both by growth and, increasingly, by the desire to build supply chain resilience. Often the markets that TMT firms focus on are emerging markets, which have certain nuances around their regulatory landscapes, capital controls, FX controls and even their business landscapes.

Market analysis and insights into the financial feasibility of business growth and supply chain growth will be critical, as will the treasurer's toolkit around understanding currency and exchange rate requirements, and compliance with local regulations.

Likewise, ensuring that cash flow is managed optimally to support expansion activities is going to be key. And that's where building banking relationships can help to demystify some of the more restrictive market dynamics, while making sure that the business is really set up for success.

Moving to the buy side

Jason Teo
Head of Treasury, South East Asia
(Including Ventures in Korea, Data Centre and Renewables)

LOGOS

LOGOS, as part of ESR Group, is a dynamic and growing logistics specialist with operations across ten countries in Asia Pacific. It manages every aspect of logistics real estate, including investment management, sourcing land or facilities and undertaking development and asset management, on behalf of some of the world's leading global real estate investors. It has approximately 11.3 million square metres of property owned and under development, with a total completed value of over US$22.9bn, across 35 ventures. LOGOS' shareholders comprise ESR Group, APAC's largest real asset manager powered by the New Economy and the third largest listed real estate investment manager globally and its founders, John Marsh and Trent Iliffe.

Jason Teo at LOGOS Group started his career in branch banking and has successfully moved to the other side of the fence – to the buy side, where he is now the one asking for funding.

When it comes to asking for loans, Jason Teo has been on both sides of the fence. He started his career in branch banking where he met people from all walks of life and dealt with their financial needs. Some of their requests were unusual – demanding, even – and Teo honed his soft skills whilst working out whether he could give those customers what they wanted. These days, the roles have been reversed and it is Teo who is making the requests and using those same people skills to find the right bankers and backers who will make his company's real estate ventures a success.

> AI is the next growth engine of the world to watch, with A being ASEAN [the Association of Southeast Asian Nations] and I being India.

Teo, like many corporate treasurers didn't set out on a career in corporate treasury. In his earlier days, he was a sales professional for Fuji Xerox products before emerging from university as a finance and marketing graduate and embarked on a career in retail banking, where he got a real feel for how everyday banking operates. His first job was at an OCBC Bank branch in Singapore, where he focused on the personal mass market as well as small-medium businesses. From there he moved to Standard Chartered Bank and focused on a different segment, this time high net worth individuals or accredited investors. In this role he was also exposed to corporate clients and was involved in loan financing, trade finance and investment advisory.

After this role, he found himself at a fork in the road of his career journey. At this juncture, Teo explains, "There are two paths that one can go down. Either you can continue with the private wealth side and manage even higher net worth clients. Or you can go down the management route and take on a bank branch management role."

Teo opted for the latter and pursued his career in branch management and became a branch manager for Maybank Banking Berhad (also in Singapore). In addition to managing and having oversight of about 20 people, he had numerous other responsibilities. These included sourcing new customers through community events and roadshows, keeping existing customers happy, and also reporting positive financial results to his managers. After a while Teo began to feel that the work cycle was like a merry-go-round with targets set, a month-end review, then it was back to zero starting again striving to reach the new month's goals. Teo yearned for a change, he explains. "That's when I thought I should switch from selling to buying and continue to have a nexus with banks."

The switch from selling financial products to buying them was a big change, but one that he adjusted to with ease. With his academic background in finance, and his fondness for studying and unconditional desire to learn new things, he was able to pick up what he needed to know to succeed in his new role. He moved from branch banking into management consultancy, which led him to corporate finance and treasury. "That marks the beginning of my treasury realm," he says. There are a number of commonalities between the two worlds, and Teo explains what lessons he learned from first working in the world of branch banking: "Having a background in banking gave me a helpful perspective of the operations part of the business, as well as the sell side – I know the background of how things work at an operational level. Now I'm on the buy side I'm able to see things more clearly. If a corporate banker makes a pitch and brings someone to the meeting from transactional banking, treasury or the investment team, I have the experience to discern and distil information, whether what they are saying is correct or not."

Teo had an instinct for knowing whether customers or bankers were trying to pull the wool over his eyes, and he wanted to go deeper into the corporate treasury and enterprise risk world. Teo further progressed his career by moving into a group treasury role at The Ascott Limited (a CapitaLand Group company). "This was where I landed my first pure treasury role," he says. His responsibilities covered the entire spectrum of treasury management including managing a loan book in excess of S$3bn, managing the group's cash flow in over 30 countries, notional/physical cash pooling, enterprise risk management and acts as primary dealer for FX/IR transactions. CapitaLand is one of Asia's largest diversified real estate groups and is headquartered in Singapore, and working for such a company was a good fit as Teo had already completed a diploma in real estate management from Singapore's Ngee Ann Polytechnic many years prior. After five years, Teo was keen to pursue opportunities that would expose him to the debt-raising side of corporate treasury life. He then landed a job at CFLD International (a public listed Chinese real estate developer), which is a leading global end-to-end master planner, creator and operator of full-scale new industry cities.

CFLD International has been active in the emerging markets of Asia, and it was this aspect that attracted Teo to the company. Teo was able to work in Indonesia, Vietnam, Myanmar and the Philippines, becoming a frequent flyer around the region. He soon learned the differences between the markets and the nuances in the banking landscape and regulations. "It was really rewarding," says Teo of this time. He adds that having this experience was beneficial to his career as this region is becoming increasingly prominent. "AI is the next growth engine of the world to watch, with A being ASEAN [the Association of Southeast Asian Nations] and I being India; the countries' rapid growth is propelled by many forces including a huge young population with rising income, global shift in supply chain diversity, untapped consumer market and emerging market opportunities – it is a key market not to be missed," he says.

That experience stood him in good stead for his current position at LOGOS, which is a major logistics specialist that manages many aspects of real estate, including the financing and investment, the sourcing of the land, and also finding the tenants for large-scale real estate ventures, such as warehouses. Teo joined the company to set up the Southeast Asia ("SEA") treasury in 2019. "When I came onboard, I was the corporate treasurer," says Teo. Since then, he has been busy building the function and expanding the team whilst also streamlining a number of processes.

The role has many challenges, and the aspect that most excites Teo is securing non-recourse development financing for the company – particularly with its unique needs. He explains that he needs to secure non-recourse loans (where the lender cannot seek direct claims from sponsor/investor and enforce more than the pledged collateral if the loan

defaults), which is what the company needs for its greenfield projects. This kind of lending is tipped in the favour of the borrower, especially if the loan goes south. “Banks usually prefer income-generating stabilised projects – it has lower risk for them,” explains Teo. Also, some industrial assets land leases are short (<15 years), which makes securing a loan against them even more challenging. Now Teo finds himself on the other side of the fence, as the customer making demanding requests to the bank – the opposite scenario he was in as branch manager when he was in a position to approve or decline the loan requests that came through his door.

“I'm excited to be doing this job – there are constant challenges,” says Teo. In the early days, securing the funding was some sort of a numbers game, with Teo having to try all the banks in the region. Teo works in various markets in the region – including Indonesia, Vietnam, the Philippines and Malaysia – and needs to secure financing large-scale real estate ventures in all of them. For this reason he has to keep his options open because the needs and capabilities of the banks are different in each of the countries. “We have more than 50 banking relationships in the region – including the foreign and local banks – that we had to approach. Once we went through the list we found out each bank's capabilities and challenges, which made it easier as we now have the proprietary list for our new financing. Then we could approach the right banks without going through that painful exercise again,” he says. Teo has built up a network with respective relationship managers at the banks and he knows what their lending policies are so it is much easier to navigate securing the right financing with the right bank in the most cost effective way.

This has been enough to keep him busy in his day job, but when he's not working it seems Teo likes to study for leisure. His LinkedIn profile is filled with certifications and qualifications that he has completed. This includes a certification on Climate Change: Financial Risks and Opportunities that he received online (with a perfect grade of 100%) from Imperial College London. Such a course aligns well with his professional work because LOGOS has been proactive in pursuing its environmental, social and governance (ESG) agenda.

The company has been involved in a number of green projects. In September 2023, for example, LOGOS and Tokyo Electric Power Company announced a joint venture to install solar power generation facilities on the rooftops of LOGOS' properties, such as logistics warehouses and data centres.

Another project that puts sustainability at the forefront is currently underway in Malaysia: construction is currently happening for a 177-acre world-class facility at E-Metro Logistics Park in Bandar Bukit Raja, which has the ambition of revolutionising industrial and logistics capabilities in the region. In Singapore, the ground-breaking has already occurred on DSV Pearl, a sustainable warehouse facility, which is owned by Pan Asia Core+ Venture, a private fund that ESR Group and LOGOS launched to target sustainable Asia Pacific prime logistics opportunities.

Although Teo has spent much time with relationship managers at traditional corporate lenders, LOGOS has also developed a partnership with the International Finance Corporation (IFC) and has received a green loan from the organisation. In December 2020, IFC and LOGOS announced that they had partnered to develop a green logistics hub, which was expected to drive economic activity in Indonesia and address a critical infrastructure gap in the country.

Teo has been able to put these projects in the context of what he has learned from his online courses. Meanwhile, there are numerous other lessons he has learned that he can also apply to his day job, and what corporate treasury may look like in the future. To give a taster of the other courses he has taken, there are 11 licenses and certifications, including ‘Finance Strategies for Business Leaders' and ‘Smart Thinking: Overcoming Complexity'. He has also done some banking and finance qualifications. And if you count all the university courses he has completed, there are another nine. These range from his formal degrees at Upper Iowa University in Marketing and Finance, a Master's in Finance at the City University of New York (Baruch College), as well as the various online qualifications. These include Risk Management for Projects; Financial Analysis and Decision Making; FinTech, Finance and Technology; Entrepreneurship; Data Science Basic R, Computer Science and Programming.

He is always learning and seeking to stay on top of the latest trends. With R, for example, the open-source programming language that is typically used for statistics and data science, Teo explains that he learned it to get an understanding of what the next wave of thinking with artificial intelligence (AI) technology is likely to be. He completed this online certification with Harvard University back in 2018 although he hasn't been able to use it in his role yet. He explains that he took the course because he wanted to learn how data science and data analytics can apply to finance as a whole.

For now, the company is undergoing a transformation of its processes and platforms to prepare itself for the future. Teo's team is hoping to reduce manual inputs and migrate to an in-house system while preparing to implement a group treasury management system, which will be part of the group's plans to rationalise. Since it was acquired by ARA and subsequently by ESR Group, there are plans to centralise various treasury functions and bring them onto a single platform for visibility and control. He is looking forward to having cash visibility and forecasting on a single platform, and will be a landmark project in the near future. This is similar to previous roles that he has taken where he has spent a lot of the initial time closing out unused and unnecessary bank accounts, reducing operational risk, managing the Kyriba/ERP system and streamlining how they operate.

Teo has a lot to keep track of; LOGOS currently has around 32 ventures, all of which have different sets of investors and shareholders. At the moment it is difficult to integrate and rationalise a single view of all the projects – a problem that is not unique and something that other large fund managers also experience. There are numerous banking relationships to maintain due to different capabilities of each bank when it comes to debt financing, although streamlining treasury will mean there will be fewer transaction banks to deal with, rather than working in siloes with multiple contact points. Maintaining such relationships comes naturally to him because of the people skills he developed earlier in his career, although these days the shoe is on the other foot, and he is the one asking for the money on behalf of each borrower of the asset.

Asian regulation: a cash management challenge

The regulatory landscape in Asia is complex, fast-changing; often ambiguous and requires robust internal treasury systems. Meeting the region's regulatory challenges is also an opportunity for treasury to excel at cash management, secure tax benefits and cost-saving efficiencies.

From a treasury perspective, navigating regulation in Asia, especially southeastern economies in ASEAN like Thailand and Vietnam, can be a bigger headache than other treasury challenges in the region like transacting in multiple emerging currencies, limited hedging options, capital controls and cultural and linguistic diversity.

Not only is regulation voluminous and fast-changing. It's often ambiguous, subject to trends in protectionism and requires robust internal treasury systems. And aside from global standards like ISO 20022 or managing the IBOR transition, it invariably requires a country-specific knowledge. But meeting the region's regulatory challenges (which broadly fall into exports and payments buckets) is an opportunity for treasury to excel at cash management and secure tax benefits and cost-saving efficiencies.

Taking money out

Reflected, perhaps, in the investment pouring into the region as MNCs establish businesses in countries like Vietnam, Thailand and Malaysia in China+1 strategies, the rules around moving money into Asian economies are more relaxed than the frameworks around taking money out.

Export-related regulations include strict timeframes around when money from export proceeds is delivered back into the country. Like Malaysia's requests that exporters operating from the country bring the proceeds back into Malaysia in either foreign exchange or ringgit within six months of the original shipment.

And regulations don't just govern export proceeds flowing back into economies in a timely fashion. Exporters must also navigate multiple rules around how they use export proceeds in some countries. Take Indonesia's July 2023 circular 'Foreign Exchange Export Earnings from the Business, Management and/or Processing of Natural Resources' that stipulates foreign exchange pouring in from the country's natural resource exports is deposited in special accounts.

Companies must put 30% of their foreign exchange revenue into a special account for three months and although it is possible to use these funds as security for loans or collateral for FX swaps, use is limited and funds must be tied up for the duration.

"Laws vary country-by-country, but the main gist is that these types of regulations exist in many countries whereby any foreign exchange coming in as export proceeds must be deposited with a licenced bank before companies can do anything with it," says Standard Chartered's Ankur Kanwar, Managing Director, Head of Cash Products, Singapore and ASEAN/Global Head Structured Solutions. He adds that in a treasury benefit, many regulators do give tax incentives for holding export proceeds in country with the interest on the proceeds taxed less, say at 0-10% compared to a standard rate of 20%.

Signs of change

Foreign exchange is another regulatory pain point with some currencies in the region with no convertibility and others with some form of managed float. But recent regulation signposts more relaxed and flexible rules for money transfers abroad in some economies. For example, the Bank of Thailand has removed complex paperwork for companies making foreign exchange payments outside the country. If corporate clients comply with their banks' KYC processes, they can freely operate and make foreign exchange payments without paperwork.

"It goes beyond just making international payments," enthuses Kanwar who says some of Standard Chartered's clients operating in the country are already making use of it. "It means treasury teams can start including balances from Thailand in liquidity structures. Treasury can move Thai Baht, convert it into dollars and include it in a pooling structure on a daily basis. It's more far reaching than just the FX regulation being simplified."

Elsewhere, Thailand is also supporting the use of local currencies (JPY, IDR and MYR, for example) as an alternative to managing exchange rate risk to mitigate the impact of US dollar fluctuations. And in another sign of increasing flexibility for companies, Thailand is also expanding the scope of its Non-Resident Qualified Company (NRQC) programme (designed to allow some foreign companies more flexible processing of transactions) to allow more MNCs engaged in international payment transactions to participate under the NRQC umbrella.

The recent relaxation of FX regulation in South Korea is another sign of encouraging change – and flags the treasury gain from being across regulatory change. Government reforms, in effect since last July, include expanding overseas remittance-without-documentation thresholds and easing reporting on large scale foreign currency borrowing. Over the last year, the government has also softened double taxation by excluding 95% of dividend earnings from abroad from being taxed in Korea after they have been taxed in the country

Singapore has become a gold standard in terms of payments regulation and now countries in ASEAN are trying to do the same.

Ankur Kanwar, Managing Director, Head of Cash Products, Singapore and ASEAN/Global Head Structured Solutions, Standard Chartered

of residence, part of an effort to induce large Korean corporates to bring back their overseas income.

Even Vietnam, which prohibits any inter-company lending, has launched a pilot programme that is exploring alternatives around permitting restricted liquidity management.

Sustainability

Sustainability is also climbing the regulatory agenda for regional corporates. For example, the Hong Kong Stock Exchange requires all listed companies publish an ESG report and stipulates companies report climate-related disclosures in line with the TCFD framework and the new ISSB climate standards. It's a sign of European and other international sustainability rules taking effect in local markets with a real impact on the region's home-grown companies, explains Hanim Hamzah, KPMG Asia Pacific Regional Leader for Legal Services.

"The social and governance elements of ESG are increasingly front and centre like AML regulation, whistle blowing and modern slavery, driven partly by bank requirements." Similarly, laws that originated in Europe governing personal data protection (PDPD) are being enacted across the region like Vietnam's Decree 13/2023/NĐ-CP dated 17/4/2023 on Personal Data Protection (PDPD) effective from 1st July 2023. Commentators also highlight burgeoning demand from acquisitive, listed Asian company hunting opportunities in Europe for regulatory guidance, mindful that European regulators will dig into ESG compliance in any merger or acquisition. Cyber risk is also adding another layer to the regulatory map as governments put in place new cyber security laws to keep pace with the roll out of digital solutions.

What can treasury do?

Positively, commentators point to examples of companies working with the regulators to secure some relaxation in the rules. For example, Kanwar cites Malaysia's preparedness to extend the time limit on repatriation of export earnings from six months to 12 months depending on certain circumstances. But the process rests on companies building up a relationship with the regulatory authorities.

The importance and benefit to companies operating in the region of building credibility with regulatory authorities by accurately reporting flows is echoed by Sandip Patil, Head of Liquidity Management Solutions for Asia North, Australia and Hong Kong at Citi. "Regulatory approval to transact across borders is often tied to the comfort companies build with the regulator," he explains.

For example, he notices that it is getting easier for some companies to move limited liquidity in specific currencies in and out of China and other restricted markets. Sure, it comes with caps and thresholds and must be attributed to specific purposes, but he says it offers proof of the benefits to treasury teams of working directly with regulators in the region.

But it is this grey area, and the absence of clear frameworks and transparency, that is often more of a headache than benefit for companies. It gives corporates leeway, but the ambiguity is not necessarily helpful. Again, commentators note that things are starting to change as some jurisdictions develop clearer frameworks often led by Singapore, spearheading clarity around payments regulation particularly.

Singapore's new Payments Service Act, launched in 2018 and with subsequent upgrades, clearly lays out a payments landscape detailing which licences companies must apply for; what activities are permitted, and the controls corporates need to put in place. "Singapore has become a gold standard in terms of payments regulation and now countries in ASEAN are trying to do the same," says Kanwar. "There is still a long way to go but rules around exports, foreign exchange, payments and liquidity are getting clearer and more transparent."

Singapore is also leading by example in a new Quick Response Code Scheme (SGQR+), an enhanced QR code payment system that will enable merchants to accept 23 payment methods by signing up with just one financial institution. It recently issued guidelines on participation, giving existing SGQR members a transition period of six months to ensure they have enough time to get the new technology in place and make any changes to their business processes and arrangements with their merchants.

Solutions

Banks are rolling out automated tools to support compliance. For example, Standard Chartered's payment workflow tool Payment as a Service (PaaS) supports Indonesia's 30% rule, taking 30% of export proceeds, and sending treasury daily reports on how much money is accumulated. After three months funds are automatically moved out. "It is an example of one of the tools we've launched to cater to the regulatory scene and help corporates manage payment challenges," says Kanwar.

Elsewhere KPMG's Hamzah counsels on the importance of corporates leaning into strong players on the ground with a country-by-country knowledge that reflects the nuances and requirements in each market. "Finding a local partner is very important." She also echoes advice that companies can benefit from working with federal government departments (for example, Malaysia's Ministry of International Trade) for better treatment and protection.

Robust internal processes are also important for companies' managing complex regulation alongside meeting group liquidity, risk, and operational objectives. But for all the enduring complexity, the region's dynamic growth and evolving business models is also accelerating the pace of regulatory change for the better, visible not only in fast-changing efforts to simplify FX and repatriation guidelines, but in the rules for new business models such as e-wallet providers.

AI in treasury

How should treasury integrate AI?

Onkar Liddar

Assistant Treasurer &
Managing Director
Accenture

Accenture's treasury is based on SAP which runs alongside the ERP of the organisation. This has been an important baseline in our digital journey because it has created a single instance data lake or source of truth that we trust and has enabled us to leapfrog into using advanced technologies.

We have begun by developing what we call intelligent cash. This is made of three components, the first of which is a comprehensive dashboard, easily available to everyone in the finance function, which lays out where our cash is and in which currency; with which counterparty or if we have a cash holding that doesn't align with our guardrails.

The second element comprises forecasting. In the past, forecasting would involve taking historical data and streamlining it. Now we use sophisticated algorithms developed by our own data scientists and consultants applied to each individual cash flow around, say, accounts payable, receivables or tax. The machine learns and evolves its algorithms, and our latest GBP forecast was spot on for the short and medium term – it forecast what actually happened. The machine is so sophisticated it can forecast better than what our people have historically been able to do.

Forecasts lead to the third component where the technology is helping us take business decisions and decide the best course of action. For example, it tells us whether to reduce our holding in a particular currency, taking into consideration its own forecasts and external data sources like the FX rate. The machine does the grunt work and people can spend less time on operations and more on thinking about risks that could happen. It also speeds up the velocity of our cash, and treasurers always need money to move quickly and without friction.

There are already many companies that profess to sell the perfect intelligent cash tool but I haven't seen a fintech out there yet that can really do this. Tools like SAP can facilitate it, but the risk with using fintech is that treasury ends up tailoring its process to fit their model, rather than the other way around. Treasurers are also mindful of how much data they send to a third party to process on their behalf because fintech and technology like ChatGPT requires putting data in the public domain and this is not the right approach for a corporate treasurer. The technology is also developing so fast, tools are unlikely to keep pace with changes in the market. Still, treasurers can't integrate AI internally and in isolation because it is complex and they have such a busy day job, so the best approach is to use trusted advisors with a proven track record.

Treasury can't operate on systems alone; it is a context-based discipline and experts will always be required to make final decisions. What AI gives treasury is an opportunity to upskill people in an environment that is becoming increasingly challenging. Take our growth for example, as the business grows, our exposure to currencies, bank accounts, partners and integration work (Accenture is very acquisitive) makes having the right money in the right place at the right time increasingly challenging.

I envisage a point of time where we can engage with the technology using prose. The machine will suggest courses of action and identify issues and we will also be able to instruct it. Once we have identified risk and interacted with it, we will be able to instruct it to exchange this currency; issue a bank guarantee, downsize debt or increase a bond offering. The tool will carry out the transaction and manage the accounting in the background in a utopia for busy corporate treasurers.

Treasurers need to determine where they stand in terms of technology, conscious that it is fluid and changing so fast that they don't tie themselves in. My advice is to set out a clear roadmap for how you want to operate in the future and start building towards that goal. AI is a fast-moving space; it will be as impactful to how we operate today as was the loom in the industrial revolution. It is transforming our industry.

Nils A. Bothe

Partner, Finance &
Treasury Management
KPMG

The ability of treasury teams to apply AI depends on access to vast data sets from which algorithms then support treasury processes like cash forecasting, confirmation matching, transaction tagging and much more. But this data needs to be accessible and in the right format, and I believe treasury is sometimes struggling to get a seat at the table as corporates set their data strategy. IT departments typically lead on the data strategy, setting up data lakes and warehouses. If treasury is to make use of at least part of this data – predictive cash forecasting is a good place to start – treasury needs to be part of the initiative from the beginning to articulate how the data is stored and in which format. Treasury departments also

need to ensure they have sufficient access to the data. Not all companies have consistent data strategies, and we notice some companies are doing it with their own resources and IT departments, while others look for external help. Integrating AI into existing treasury technology is the next step and depends on the kind of data and formats. Treasury will need to consider how to feed AI into TMS processes and API interfaces and decide whether a hybrid landscape that uses a specific AI tech is preferable. TMS are mostly standard solutions so integrating AI development initiatives will follow prescribed processes. But it will be interesting to see how the vendor market responds to developments. Vendors won't engage with a new piece of software unless there is demand in the market and although some vendors are already investing in AI solutions, it remains to be seen how they will be adopted by corporates.

And a lot of our clients are still hesitant about AI. Many are watching what others are doing in a wait and see approach. This reticence is linked to the availability of data, particularly around predictive forecasting, and the expected benefits. Still, AI is not something that treasury can simply switch on and reap the benefits right away. It is a question of beginning and allowing the algorithms to improve over time. Our recommendation is to hone on a particular business case; start deploying it and learn as you go.

We advise clients to develop a roadmap. If they have a treasury solution coming to the end of its life cycle, they could use that point to upgrade, re-evaluating if it is the right TMS or if another solution fits better with innovations in AI. A roadmap means learning about what's out there, developing a strategy to make use of certain AI components backed by a solid business case. Like digitisation, AI is not something of itself. It needs to follow an economic case.

The deployment of AI will eventually lead to the management by exception principle. It will free up human resources to deal with exceptions, where AI can't help. Humans will be able to concentrate on more high value tasks, but it might be difficult for treasury to retain the knowhow and talent to deal with exceptions if the technology is doing an increasing portion of the daily tasks.

Tanya Kuznetzova

Director, Treasury and Cash Cycle Transformation
Baptist Health Care

When I think about AI, I always try to look at it as the combination of two distinct work streams, but which also work in parallel. One part of AI involves data processing and modelling, working with structured and unstructured data to apply algorithms that deliver forecasting calculations. The other stream involves Natural Language Processing that models our language and speech.

The data processing models have been around for a while in treasury – banks have been using them for years. The most important element of data modelling involves understanding its limitations. These limitations are only just starting to emerge and can be viewed in different ways.

Take Facebook as an example, everyone knows it monitors our feeds, and feeds back to us more of what we have already seen. The technology doesn't let us see different things unless we proactively search for something new, and this limits our perspective. The same is true of the data that treasury will be and is using – it won't flag new risks and can limit perspectives.

Take the fact insurance companies use advanced technology to assess risk by installing devices into cars to monitor a driver's behaviour. This tech then feeds into data models. Does this data give insurers information that is helpful, or does it take into consideration things they don't need? Treasury can't just apply the data and forget about it. Treasury must also apply due diligence.

Due diligence is also important to avoid AI hallucinations. In language models the technology predicts the next word, but it doesn't understand what it is saying. It's possible that the AI comes up with something that doesn't exist, and we can't tell if its real or fake. Fake news is intentional, but AI is just doing its job. It's possible to embed preferences, like asking the AI to always quote a source to verify what it says. But this is also difficult because we don't know if the source is true or fake. Again, treasury needs to be careful that the information it takes from AI is real.

The reality is that AI is here, and everyone must get on board. The key is to learn about AI and learn how to collaborate with it so that treasury can perform better. Very soon, simplified language models will eliminate the need for any translation between financial and IT language; the technology will understand what we tell it through speech recognition and write code to program it.

Open AI, the company behind ChatGPT, is currently building the enterprise business applications on top of the language processing models. AI Assistant is an example of this today, offering an agency that allows people to collaborate with AI; have it understand what they ask, and perform various functions based on API connectivity with systems. In my opinion, strategic involvement will be democratised, and all treasury staff will be included. The person who does the work knows best how to improve it – when it comes to AI companies should work with treasury and give treasury time, capacity and a voice to contribute to organisation's wellbeing.

Next question:

"What key issues will impact the corporate bond market in 2024?"

Please send your comments and responses to **qa@treasurytoday.com**

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