Asia: Opportunity in Adversity
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For many economies in Asia, the current level of oil prices represents more of an opportunity than a problem. Government fuel subsidies are removed which leads to positive current account surplus leading to more infrastructure developments. Manufacturing, transport, aviation and other service industries benefit with lower operating costs. Cheaper oil also leads to increased consumer spending stimulating domestic economic activity supporting GDP growth.

Oil demand in the region appears to have robust growth potential and is expected to hit 60% of world oil production by 2030. For certain countries - such as Singapore, Taiwan, South Korea and Japan - that are major producers of refined fuels, low oil prices are beneficial, as they enable improved margins.

Major crude and gas exporting countries like Malaysia, Indonesia and Brunei, - may by contrast be feeling pressured by current crude prices, but have responded quickly. Some of this response - such as cost cutting and deferred capital expenditure - may be defensive. However, there is also considerable interest in more positive steps, such as improving process efficiency and liquidity management. This proactive future proofing is likely to prove increasingly valuable as Asian oil and gas companies continue to build their international presence.

Integrating International M & A

One of the best examples of the potential benefits of this approach is China. A particular area of focus for the largest Chinese oil and gas companies looking to improve processes is liquidity visibility. This is especially relevant given that in recent years these companies have made a number of significant overseas acquisitions. While they may have good visibility of their liquidity within China, the same does not apply as yet to their still largely un-integrated foreign assets. When oil prices were USD100+ this was less of a priority, but is now seen as a valuable additional opportunity to maximise the visibility and utilisation of internal liquidity from overseas.

Internationalisation

In addition to recent Chinese acquisitions, Asian countries are more generally building their international oil and gas presence. Indonesia has recently rejoined OPEC and has a stated intention of sharply increasing its crude oil production from overseas sources to at least 600,000 barrels per day. Thailand's national oil companies are also keen to expand abroad in search of upstream extraction opportunities, with two recent forays into Vietnam and Indonesia.
This expansion requires capital expenditure and with external sources less readily available than in the past, the pressure is on corporate treasuries to deliver it via free cash flows rather than by raising new debt.

This is driving considerable interest among Asian oil and gas companies in acquiring the liquidity best practices already deployed by their global multinational counterparts. The first step along this path is a comprehensive analysis of all possible sources of internal liquidity, followed by designing the most efficient way of concentrating it. Very few companies in the region have a slight edge here in that they are already using mainstream ERP systems. Elsewhere, proprietary ERP technology is still commonplace, which poses greater challenges in terms of both process transparency and bank connectivity.

Another interesting aspect of Asian internationalisation is Thailand’s initiative to encourage international corporations to establish shared service centres and regional treasury centres in the country. Apart from offering these corporations tax incentives, the country is also investing USD60bn in infrastructure development. Apart from attracting inward investment, this initiative should over time enhance the local workforce’s specialist treasury and process skills.

**Joint ventures**

An appreciable proportion of the oil and gas industry in Asia is nationalised. Therefore, international oil companies wishing to operate in some countries with the most attractive prospects - such as Vietnam, with proven oil reserves of 4.4bn barrels - have to do so on a joint venture basis.

Apart from any day to day operational questions, this joint venture requirement also presents a challenge from the liquidity management perspective. Fortunately there are now liquidity management solutions available that incorporate automated proportional sweeping for joint ventures. This allows for funds to be swept to more than one master account and to/from partners of a joint venture entity, as well as for collections to be distributed between different department accounts.

To learn how HSBC can help you please contact your local Relationship Manager.