Crossing borders: navigating the new reality of international business

The seemingly inexorable march of globalisation has redefined how businesses operate, enabling them to reach more customers, improve efficiency and ultimately become more profitable. However, in an increasingly complex world, the benefits that have been delivered by globalisation can no longer be taken for granted.

In his book, The World Is Flat: A Brief History of the Twenty-First Century, American author Thomas Friedman details the development of globalisation, beginning in 1492 when Christopher Columbus set sail, opening up trade between the new and old worlds. This period was known as Globalisation 1.0. Globalisation 2.0 followed between 1800 and 2000, as businesses, empowered by technological developments and progress in transport and logistics, began to expand across borders.

In the current era, which Friedman defines as Globalisation 3.0, individuals and businesses from every corner of the world are interconnected and empowered, shrinking the world and creating a truly global marketplace and economy. However, recent events, including the UK’s decision to leave the European Union and Donald Trump’s protectionist rhetoric, have thrown much of what was taken for granted about globalisation into doubt. For businesses operating in Asia Pacific (APAC), this raises some interesting questions about the future of the international business landscape – and whether businesses will be able to continue operating across borders with relative ease.

In perspective: globalisation and international business

The hope is that, despite the events of 2016 and the recent backlash against globalisation, governments will continue to allow global trade to flourish. "Globalisation and the rise of global free trade has had an incredibly positive impact on the global economy," says Mark Evans, Managing Director, Transaction Banking at ANZ. "Open markets are proven to bring economic growth, innovation, productivity and prosperity."

The globalised world has also afforded businesses all manner of opportunities to grow by expanding into new markets and creating new revenue streams. Indeed, the latest statistics from the S&P 500 highlight that 44.3% of their profits are made outside of their home market of the US. This trend is further emphasised by large international brands, with stores and products which are ubiquitous around the world.

Globalisation and free trade have enabled businesses not only to increase revenues by tapping into new markets, but also to operate more efficiently, says Michael Lim, Head of Trade and Supply Chain at ANZ. "The opening up of emerging market economies has enabled businesses to think more strategically about their supply chain and pick and choose where they are producing," he says. "The rationale behind each decision will vary from company to company, but essentially the aim is either to drive cost savings by producing in countries with low labour costs, or to gain a competitive advantage by producing close to the resource base, thereby creating speed and agility in the supply chain."

Asia Pacific has played a central role as corporate supply chains have evolved, and China has been a particular beneficiary. In the 1990s, China produced less than 3% of global manufacturing output by value. Today, thanks to various economic and trade policy reforms, the country produces nearly 25% of global goods and is the world’s largest exporter.

In more recent years, other countries in Asia, most notably from the ASEAN region, have looked to leverage this trend and take on segments of the supply chain. With over 80% of companies based in emerging markets planning to relocate parts of their supply chains to other emerging markets, it is a strategy that many businesses hope they are able to continue to follow.

Challenges facing international business models

This cannot be taken for granted, though, as these operating models are under increasing pressure as globalisation comes under attack. "Socially, there has been a clear backlash around the world against globalisation," says Evans. "In the western world, people..."
are angry that jobs are being lost as work is outsourced into low-cost markets. This has resulted in political disenfranchisement, with a shift towards political leaders that employ protectionist policies.”

This is most evident in the United States where Donald Trump’s decision to pull the US out of the Trans-Pacific Partnership (TPP) – a trade agreement that encompassed 40% of global GDP – and his desire to impose high tariffs to punish foreign governments which adopt unfair trading practices and force US firms to import less, seemingly contradict the globalist policies of most American multinationals.

While the shift in US policy is causing concern, the US is not the only country to be preaching protectionism. The UK’s decision to leave the European Union is another example, and other countries in Europe are also increasingly looking inwards. This poses a considerable risk to international business, and Evans notes that he has already seen the confidence of many businesses knocked as a result.

It is not just political forces that are putting pressure on the structure of international business. Uncertainty around regulation remains a key impediment, especially in some of APAC’s more restricted markets. To highlight this, Evans discusses some of the recent challenges ANZ’s clients are facing in China. “Doing business in China is much more complex than before and we need to be in a position to help our clients navigate the complexity of Asia’s diverse markets.”

Businesses are also being affected by extra-territorial regulation. “Regulations are tightening, especially around areas such as anti-money laundering and modern slavery,” Evans explains. “This is, of course, a positive move, but what makes it difficult for businesses is that local governments are interpreting these rules differently. Corporates need to be much more careful when using low-cost labour in emerging markets to make sure that they are not breaching any local laws regarding modern slavery, for example.”

The importance of options

As a result of these pressures, it is not surprising that some firms have begun to ask whether the costs of manufacturing outside of their home markets may outweigh the benefits. These are certainly questions that multinational corporations and their treasury teams, which have increasingly become pivotal in the strategic direction of the company, should be considering.

“We have had numerous clients come to us and ask questions about the various political, economic and social trends in the markets they are operating in,” says Lim. “This is a positive sign because it shows that our clients are thinking proactively about what all these developments mean and trying to understand the risks and opportunities that these create for the business. But our overriding advice is always not to panic: these trends are very unlikely to cause business to grind to a halt.”

That said, some alterations may be needed. As a result of these conversations, ANZ is already seeing many treasury teams make some changes, with some increasing their hedging in light of increased market volatility. “This is helping smooth out that volatility for the business over the short term and this will be a key role for treasurers in the comings months and years,” says Evans.

But any true risk management strategy cannot rely on short-term hedging strategies alone and the business must adapt and evolve in accordance with the changing business environment. “Every good business strategy considers the risks to that strategy and should always have options to move in another direction should need be,” says Evans. “Treasurers should certainly be looking at putting in place a Plan B should these anti-globalisation trends continue. This isn’t alarmist, simply good practice.”

In particular, ANZ suggests businesses should take a good look at their supply chains, especially if these include countries which are currently embroiled in trade disputes or are leaning towards protectionism. Again, the advice is not to panic but to make sure that a degree of flexibility is built into the supply chain, providing the option of switching suppliers should the need arise.

“Supply chains are complex constructs and take a long time to establish and cultivate,” says Lim. “As a result, these cannot be changed overnight, but we do believe that treasurers and procurement teams need to be working together to consider alternative options with the objective of making sure that the business can continue to operate smoothly, no matter what political or regulatory changes occur.”

Ultimately, for treasurers, it is about staying ahead of the game – and with forward planning, this shouldn’t be a problem. “Regulations and legislation don’t typically change overnight,” says Lim. “There is always time to react, but sometimes this does require businesses to be uncharacteristically nimble. We therefore encourage our clients to keep abreast of the winds of political change and ensure they have an action plan for the alternate scenario.”

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Digital trade flows

While treasurers manage the risks of doing business across multiple international markets, there are also opportunities that must be considered, particularly in the digital space. E-commerce, for instance, has proliferated in recent years and now accounts for an estimated 12% of all trade. For businesses, the ability to reach a broader audience without the need for a bricks and mortar store is clearly attractive.

If sales are to go truly digital, so must the underlying processes that support these. “We have been talking about international trade going digital for decades and in recent years this has begun to gain some real momentum,” notes Lim. “But as e-commerce takes hold, corporates are beginning to see the full benefits of removing paper and creating efficiencies, both from a cost and control perspective and in terms of removing friction from the process.”

It is not easy though, and corporates can often find themselves caught having to manage local laws that can sometimes prohibit the digitisation of business. “We hope that this will not always be the case,” says Lim. “Countries such as Singapore are leading the way in promoting digital trade flows. I think these efforts will converge and we will see other countries following suit because the benefits for all parties are clear.”

Payments innovation

If the product and document flow is to be seamless, the payment flow needs to be similarly smooth. Unfortunately, at present, the underlying payments infrastructure often causes problems for organisations operating and selling internationally. Payments, especially cross-border, are cited as being slow, expensive, opaque and problematic from an operational and compliance perspective.

Despite this, Evans is keen to highlight that a lot of work is being done at present to improve the payments infrastructure. “SWIFT’s global payment innovation (gpi) initiative is just one exciting development and we are very interested to see how it works now it is live,” he says. “It has the potential to solve many of the cross-border payments challenges that companies face by providing full visibility over transactions, delivering certainty and eventually also providing rich remittance information.”

Evans also notes that blockchain will have a role to play in the payments space and in the digitisation of trade documents. “It is clear that distributed ledger technology will provide our clients enormous benefits at some stage in the future,” he says. “We have already been involved in a number of groundbreaking pilots, including testing the technology in cross-border payments, and we will keep working on this area. It is important though that expectations are managed. Treasurers need to understand that it is not going to fix all the challenges in international business overnight, but slowly benefits begin to be realised.”

All this innovation, no matter what form, typically brings a standardised set of benefits. As Evans explains: “For all parties involved in international trade, these digital solutions help provide transparency, certainty and efficiency, creating a better trading environment for all.”

To take advantage of all this technological change, treasurers once again need to be prepared. Lim advises that treasurers should ensure that their processes are efficient and standardised. “If they are not, it will be very difficult to move quickly and take advantage of these new technologies once they become available,” he says.

Finger on the pulse

Despite the events of 2016 and a perceived pushback against globalisation, business remains increasingly international, from the existence of complex supply chains to the opportunities brought by e-commerce. But in this period of heightened volatility, it is prudent to question current business models and their long-term viability.

Managing this dichotomy between the forces of globalisation and localisation will pose an interesting challenge to corporates and their treasury teams in the years ahead. In order to prepare for what is to come, both Evans and Lim reaffirm that it is important to have options in place and to plan for any different scenarios that could impact the business. “This is crucial to help corporate treasury teams, as well as procurement teams, manage risks proactively and position themselves to take advantage of any opportunities as they arise,” concludes Evans.

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