

SMEs: Becoming Swans under the Irresistible Trend of Asianisation

Wisa Kitichaiwat

Analyst

Exchange Control and Credits Department

Bank of Thailand

LAST WEEK, the Bank of Thailand held a business seminar on "Opportunities and Threats of Small-Medium Enterprises (SMEs) in the Asianisation Era" to raise awareness of the increasing influence of Asia on the world economy, and support Thai SMEs in light of various obstacles.

To keep up with a fast evolving world, businesses need to understand the changes quickly and adapt themselves to unanticipated situations in order to survive.

Fuelled by the region's spectacular growth in the past decade, the rise of China and India, and the ongoing uncertainty in G3 markets, as well as the trend of a power shift from developed nations to emerging economies, Asia has become the centre of everyone's attention and attractive to foreign investors. Consequently, capital movements in this region are expected to be more volatile, increasing pressure on the baht and regional currencies, which may add extra burdens of difficult financial access, narrower opportunity and higher hedging cost to some already stressed SMEs.

However, with challenge comes opportunity. According to the IMF, Asia, with China and India as the main engines, will lead the global recovery in the near term. In the case of China, the 12th five-year plan has given priority to boosting China's domestic demand, particularly household consumption, and promoting the internal market. Since China is expected to import more consumer goods during the next five years, Thai SMEs should grasp this golden opportunity to improve themselves in terms of both products or services offered and production efficiency that respond to Chinese customer needs. In addition, the formation of the Asean Economic Community in 2015 will also be a great opportunity for Thai

entrepreneurs to explore new markets, take advantage of cheap labour, and move production to countries where their products will be sold.

As exchange rate risks are inevitable and may have big impacts on firms' profits and future, operational hedging techniques can be implemented to help SMEs manage their exposure. A local company may settle its trades or services in currencies other than the US dollar in order to diversify out of one single currency. It may also agree upon a risk sharing arrangement with its counterparty, so that the benefits accruing to one party due to a change in the exchange rate are shared by both parties. Additionally, a firm can eliminate the risks of exchange rate fluctuations by aligning the currencies paid with the currencies received. For instance, while a local company exports goods abroad, it may want to consider purchasing or investing in products, or adding value as well as producing, in that specific currency as well.

In combination with operational hedging tools, firms may further reduce their risks through financial hedging instruments including derivatives contracts, such as forwards, futures, and options, and money market hedging techniques by requesting payment in the currencies they typically use or offsetting the future receivable with the future payable at the current spot rate. In short, it is essential for SMEs to find the hedging strategies that are most suitable to their companies in order to reduce any potential losses.

Charles Darwin once said, "In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment".

In this era of globalisation when capital can move freely from one country to another, central bank intervention can help moderate the exchange rate volatility, but not change its trend. On the road to survival and success, SMEs will need to be resilient by continuously improving themselves and quickly adjusting to the fast changing business climate. Some SMEs may resemble ugly little ducklings born during a cold and snowy wintertime when they encounter several obstacles in the vein of financing difficulty and limited opportunity. However, instead of losing heart, they should consistently improve and

strengthen their capacity to fulfill the world's demand, in addition to repeatedly increasing their potential to cope with volatility so as to make their businesses sustainable. Once spring comes with all its beauty - in the midst of tulips in full bloom and nightingales' joyous song - those who survive will look into the clear stream and see they are no longer dark and ugly ducklings, but graceful and arrogant swans.

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