Treasury and Trade Solutions

ASIA PACIFIC

Treasury and Finance Thematic Client Series

# Increasing the Resilience and Sustainability of Supply Chains in Asia Pacific

## Key takeaways

With disrupted trade flows and supply chains, supply-related shocks and production stoppages worldwide, the COVID-19 pandemic has emphasized that supply chains need to operate not only “just in time” but “just in case”. Resilience and sustainability, as well as efficiency are key measures of the health of corporate supply chains. The pandemic also accelerated trends that were already under way before the health crisis, such as digitization, eCommerce and diversification of supply chains. As companies of all sizes and industries look ahead, they are considering the lessons of the pandemic and applying them to their supply chain strategies.

### 1 Industries have experienced different degrees of supply chain disruption

**63%** of supply chain managers who participated in Citi’s recent Disruption, Digitization, Resilience: the future of Asia Pacific supply chains report, produced in conjunction with the Economist Intelligence Unit (EIU) reported significant or very significant impact on their supply chains during the early months of the COVID-19 pandemic*. However, only **50%** of companies in Asia Pacific reported a lesser impact than their peers in North America or Europe: **50%** compared with **76%** and **81%** respectively. Footwear and apparel, auto and manufacturing industries were amongst the most severely disrupted.

*All figures referenced to are from the Disruption, Digitisation, Resilience: the future of Asia Pacific supply chains report

## 2 More than half of companies are adapting supply chain strategies in response to COVID-19

Many supply chains recovered quickly as companies adapted to the changing conditions brought by COVID-19. Even so, the pandemic has sharpened senior management focus on the resilience of supply chains, particularly amongst North American **(56%)** and European **(52%)** corporations. As well as the disruption created by the pandemic, these companies are concerned about ongoing supply chain challenges, such as geopolitical tensions and trade tariffs, and opportunities, such as trade digitization and the rise of eCommerce. In contrast, only **3.2%** of Asia Pacific participants are concerned about the resilience of their supply chains. Even so, Asia Pacific supply chain managers are keen to reduce the impact of future supply chain shocks, particularly the next (rather than current) pandemic, noted by **40%** of respondents, compared with only **4%** in North America and Europe.

## 3 Bolstering supply chain resilience is an immediate strategy

Corporations that are focused on supply chain resilience are looking at diversification and regionalization of supply chains, including "China plus one" strategies i.e. creating additional production capacity in an alternative location. These are immediate rather than long-term plans: the majority of respondents said they would be starting to implement their supply chain strategies during the second half of 2021 **(41%)** and 2022 **(28%)**.

## 4 Supply chain sustainability and reliability is as important as financial resilience

While financial resilience is a significant priority for many companies, supply chain sustainability is of comparable importance. **33%** of respondents noted that sustainability of suppliers is their number one operational consideration, with **21%** prioritizing this issue to reduce the impact of future shocks. This figure was only **7%** in Asia Pacific, however, whereas **23%** of supply chain managers in Asia Pacific emphasized the importance of inventory management, a concern that was not shared by their North American and European peers.

## 5 Digitization is essential to resilient and sustainable supply chains

Digital technologies play a major role in increasing visibility, efficiency and velocity of supply chains. Companies are motivated to digitize their supply chains for a variety of reasons, including the need for better forecasting of supply, and the increasing cost and reduced availability of labor, particularly given the expansion of the middle class in China and parts of South East Asia. **64%** of respondents said they had increased their investment in digital tools and processes to manage their supply chains by at least **25%** as a result of the pandemic. **13%** had increased this by more than **75%**. The purpose of this investment varies by region, however, with Asia Pacific supply chain managers focusing more on customer service and inventory management, and North American and European respondents prioritizing manufacturing and forecasting of supply and demand.

## 6 Digitization needs to take place across multiple dimensions

Trade finance has traditionally been highly paper and resource-intensive, particularly documentary trade. There are three interconnected digital trends which are helping to create a new paradigm for conducting international trade:

- Process digitization by banks and corporations, using tools such as artificial intelligence (AI) and optical character recognition (OCR)
- Connectivity across supply chains, including via third party platforms
- Broad participation, not only banks and corporations, but customs authorities, tax authorities, logistics etc.

## 7 Financing can help enhance environmental and social sustainability across supply chains

Many companies, particularly in consumer-facing industries, such as FMCG, and high impact industries such as chemicals, have set ambitious environmental, social and governance (ESG) targets, such as reducing carbon emissions and waste, and improving labor and human rights standards. To meet these objectives, they are looking for advice and support on how best to embed these objectives into supply chain strategies. An emerging opportunity is ESG-linked supply chain financing, which offers preferential pricing This can be difficult in practice, however, without access to consistent and auditable data on suppliers' ESG metrics to demonstrate genuine impact rather than 'green washing'. This is becoming less of an obstacle with the independent monitoring

## 8 Increasing supply chain resilience and sustainability requires a range of interconnected solutions

There was a time when banks, technology and service providers worked independently and competitively with each other, each claiming that they could solve a client's business problem in its entirety. This is no longer the case. Rather, banks and fintechs complement each other's activities, often in partnership lending their particular skills and capabilities to problem-solving. For example, we are seeing fintechs successfully providing 'last mile' solutions such as microfinancing in India, or digital onboarding for suppliers. These can play a highly complementary role to bank financing and cash management solutions, ultimately supporting the full spectrum of ecosystem partners.

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