ANZ INSTITUTIONAL

THE FUTURE OF THE GLOBAL SUPPLY CHAIN: RESILIENT, SUSTAINABLE, TRANSPARENT

FEBRUARY 2022

FOREWORD

Global supply chains, which have been undergoing momentous changes for more than a decade, are now dealing with the transformative effect of the COVID-19 pandemic.[1]

The pandemic has helped amplify several significant forces, including geopolitical tensions, income inequality, technological advancements, regulatory scrutiny and the growing focus on sustainable development.

In grappling with these challenges and the uncertainties they create in their operating environment, companies are becoming increasingly innovative in their approach. Most inventory management systems have broadly moved from a just-in-time approach to a just-in-case model. Some businesses have gone a step further, partnering with transport or logistics companies to completely eliminate their need to stock goods.

Rising nationalistic tendencies are fuelling the debate on issues such as nearshoring – even as locked-down consumers embrace ecommerce – further straining global supply chains. In response, companies are expanding operations into foreign markets and diversifying their production bases and supply lines to improve efficiencies and reduce their reliance on a single geography.

Meanwhile, an increasingly environmentally conscious consumer is playing a central role in encouraging companies to embrace sustainable business practices, including managing the environmental and social impacts of their supply chains.

Additionally, treasury and procurement departments are turning to technology to digitise their operations. From real-time payment solutions and innovative sustainable supply chain finance products to remote sensors, drone deliveries and blockchain, technology is helping modernise cash management systems as well as supply chains around the world.

Banks and financial institutions have a critical role to play in helping their clients navigate these changes. By taking on an advisory role, they leverage their know-how of customer trade flows and local networks. This complements their in-house technological expertise through key partnerships with external partners, including technology providers and fintech companies. Banks are ideally placed to help close a yawning USD2 trillion trade finance gap while incentivising companies to adopt sustainable business practices and bring about transparency in opaque global supply chains.

Ultimately, the future of the global supply chain hinges on how companies navigate challenges including the pandemic, ongoing geopolitical concerns, climate change, and the opposing trends of globalisation and protectionism.

This in-depth report will delve into the far-reaching impacts of these forces to shine a spotlight on the future of supply chains and the role banks can play in building a resilient, sustainable and transparent global supply chain.

TAMMY MEDARD
Managing Director, Institutional Australia & PNG

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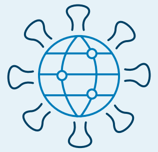
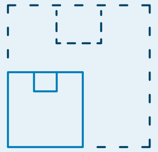
Managing Director, Transaction Banking

GLOBAL SUPPLY CHAINS

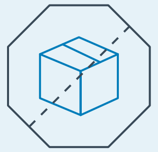
UNDERGOING TRANSFORMATIVE CHANGE



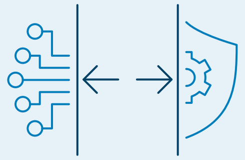
The pandemic is **driving transformative change** to global supply chains



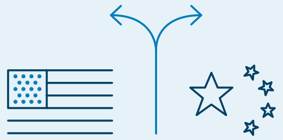
A move from **just-in-time** to **just-in-case** inventory model



Trade tensions – and their effect on critical technologies and supply chains – are likely to have a significant impact on strategy and risk appetite in coming years



The **expanding divide over technology and data governance** will make global standards harder to achieve and complicate cross-border digital trade and data transfers, increasing operating costs and regulatory risks



The **bifurcation of US and Chinese** technology, standards and supply chain ecosystems will continue, limiting innovation and driving up production and compliance costs for companies

INTRODUCTION

Long before COVID-19 transformed the world, a number of disruptive trends, such as geopolitics, rapid technological progress, heightened regulatory scrutiny and the growing focus on sustainable development, were driving permanent changes in the supply chain linkages that keep global commerce and our lives going.

The pandemic has managed to compress the evolution of these forces, which had once been predicted to unfold over several years, into a few months, amplifying their impact in unforeseen and unprecedented ways. The supermarket shortages of early 2020 — when panicked consumers emptied store shelves of everything from bread and pasta[2] to toilet paper[3] — were an early indicator of the pressures COVID-19-induced shutdowns imposed on global supply chains. More than a year later, companies are facing a fresh set of challenges. Container shipping costs have hit record highs as businesses scramble to serve a growing demand for ever-faster deliveries from homebound consumers driving a boom in online sales.[4]

There is the growing proliferation of ecommerce, which is just one aspect of business that COVID-19 has catalysed. The pandemic is changing the way companies think about supply chains, prompting a shift in inventory management systems from the long-established just-in-time approach to a just-in-case[5] philosophy. This model prioritises minimising production delays and the odds of stocks running low while empowering distributors to play a more active role, thereby shifting working capital requirements.

Additionally, certain sectors – especially those active in the ecommerce space – are taking things further and democratising their supply chains and delivery models with a so-called 'not even mine' model. This model involves partnering with transport companies and logistics providers in order to completely eliminate a business's need to stock its products. The model is currently gaining traction in the gig economy, especially among food delivery services, as well as ecommerce giants such as Amazon and Taobao, which require sellers on their platform to manage inventory in-house.[6] At the same time, warehousing companies are also looking to differentiate themselves in a crowded marketplace[7] by taking on the responsibility of stocking goods on behalf of their corporate clients.

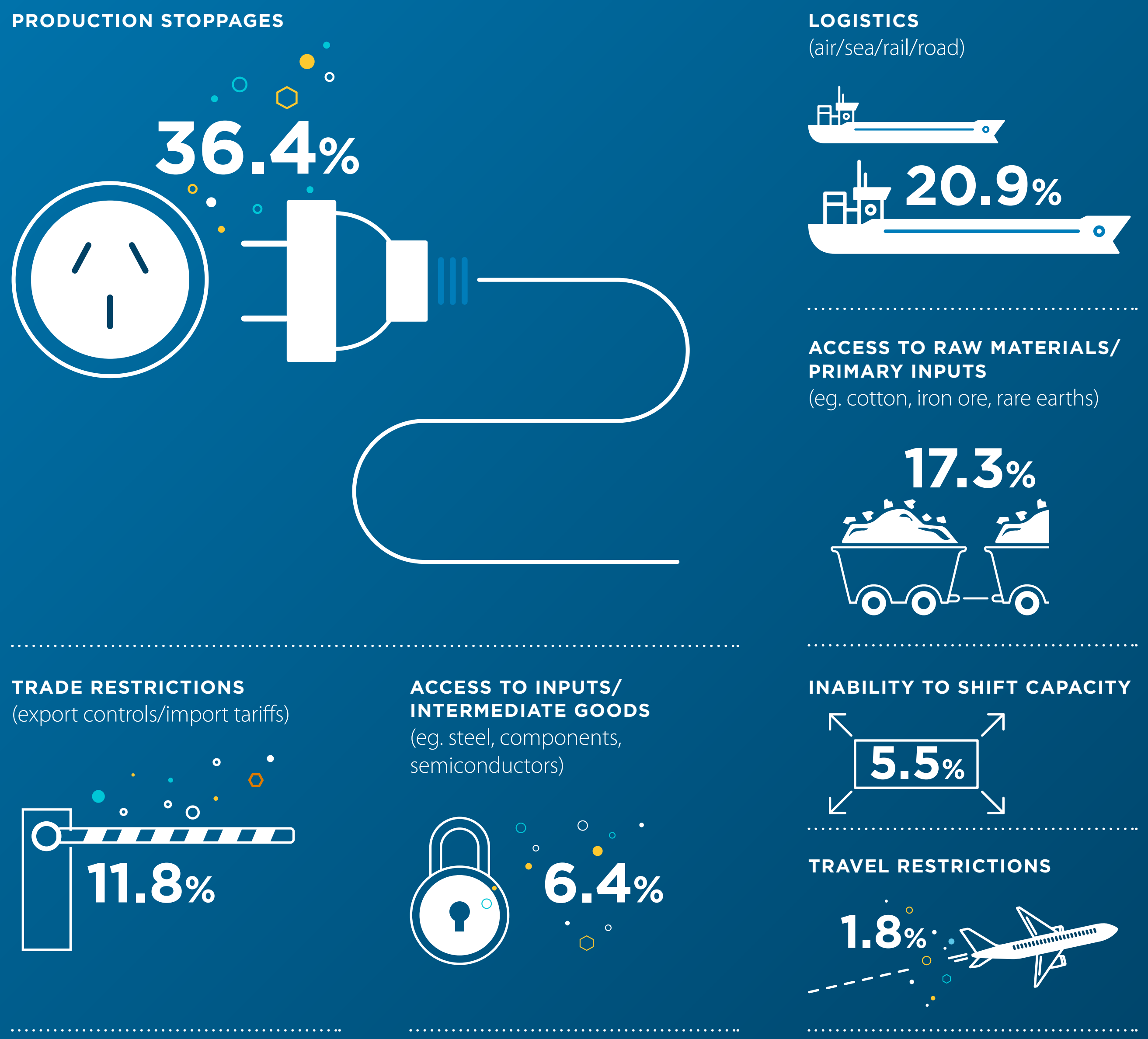
Meanwhile, the decentralisation of production hubs – a process that had been underway for the better part of a decade in response to the intensification of geopolitical and trade tensions – is switching to a higher gear.[8] Before COVID-19, there was a natural and gradual evolution of the global supply chain as China, which has gained a reputation as the world's factory,[9] moved up the developmental curve, becoming wealthier and, naturally, a more expensive place to base manufacturing facilities. This has prompted other countries in the region to position themselves as alternative production hubs. This trend has been in play since before geopolitical tensions heightened concerns about the integrity of supply chains linked to Chinese production hubs, and fuelled debates about shifting production back, or closer to, home. The appeal of Asian economies as alternative manufacturing hubs continues to grow. ASEAN in particular is viewed as an attractive destination in the region[10] by companies across industries – including automobile and electronics components, agricultural products, petrochemicals and apparel – when looking to expand their production bases.

The pandemic has only served to highlight the need for businesses to create redundancies and reduce their reliance on a single geography by diversifying their operations and supply chains.[11] Additionally, there is a growing emphasis on building trade links that can readily adapt to future crises as well as encouraging and rewarding corporate actions — such as embracing new technologies to increase transparency in their supply chain and setting targets to reduce emissions — that prioritise sustainable development.

The focus is, rightly so, shifting from looking at disruptions as one-off events towards developing a holistic and integrated approach to risk management and building resilience in the quest for equitable and sustainable development. This includes transforming the field of supply chain finance, promoting environmental, social and governance (ESG) best practices and taking sustainable development mainstream.

DISRUPTED BY PRODUCTION STOPPAGES

CAUSE OF PANDEMIC DISRUPTION TO SUPPLY CHAINS (% OF RESPONDENTS RANKING #1)



Source: The Economist Intelligence Unit

1. THE PANDEMIC CREATES A PERFECT STORM

Global supply chains have been caught in a perfect storm whipped up by COVID-19.

Following a drop in spending in 2020 amid lockdowns, demand for consumer goods has skyrocketed in 2021 as people – hunkering down at home on government orders aimed at reducing caseloads – turned to the internet to procure their daily household needs. It also provided a means to burn excess savings built up from stimulus cheques and cancelled vacations in the first year of the pandemic.[12] The worldwide rollout of vaccines is expected to boost demand further with Deloitte projecting consumer spending to grow by 8.1 percent in 2021 and 3 percent in 2022.[13]

The boom in ecommerce sales has led to acute shortages of goods ranging from household supplies, consumer durables and medical equipment to a host of critical industrial goods, such as packaging material[14] and semi-conductor chips that will impact a number of sectors. Goldman Sachs estimates that a shortage of computer chips alone will affect 169 industries in 2021 and shave off US GDP by as much as 1 percent.[15]

Meanwhile, mandatory lockdowns have kept factory employees, port workers and truck drivers at home. This plays havoc with production schedules and impacts on the ability of ports and logistics firms to handle the movement of goods,[16] triggering massive shortages in raw material as well as of finished products. For instance, in August 2021, it was estimated that over 350 container ships were stuck outside ports around the world - more than twice the number from earlier in the year.[17]

As the bulk of the world's goods are transported by sea,[18] the pandemic-fuelled consumption boom has pushed cargo shipping lines to the limit, creating acute container shortages and exacerbating delays even as freight rates balloon to new record highs.[19]

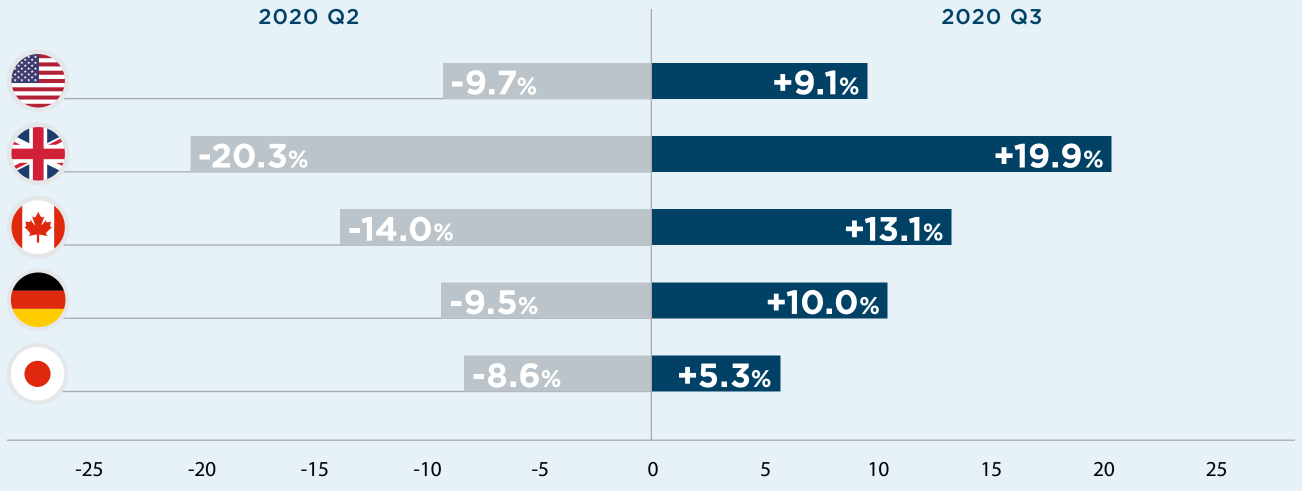
This state of affairs is expected to continue for most of 2022[20]. Amid shrinking capacity and freight costs that remain well above pre-pandemic levels[21] – at their peak, ocean freight rates on key routes had shot up by over 500 percent during the past year[22] – shipping companies are focusing on the most profitable trade routes, bypassing heavily congested ports and dropping destinations from their itinerary, adding to the strain on global supply chains. With global merchandise trade volume forecast to grow 8.7 percent in 2021 and a further 4.4 percent in 2022[23], ANZ economists predict that shipping goods around the world will continue to be a costly proposition in the coming year.[24]

As consumers accustomed to next-day or even same-day deliveries come to terms with growing wait times and shortages, the pressure continues to build on companies to bring their products to market on time. As Hari Janakiraman, Head of Industry and Innovation, ANZ, notes: "The pandemic has triggered a distinct shift in the way companies think about their supply chain, from just-in-time to just-in-case. They are very worried about having to secure the availability of materials to ensure their production schedules remain intact."

With supply chains stretched to near breaking point, and the consumption boom set to continue in line with the expansion of the global middle class,[25] the critical relationship between the procurement departments of companies and their treasury managers is set to come under increasing stress. With pressure growing on the former to fulfill the payment demands of their suppliers on time, cashflow management is becoming further complicated for treasury departments as they cope with the dual challenge of accurately assessing growing credit and counterparty risks[26] while ensuring the timely supply of funds in a volatile business environment. Supply chain finance products, such as those offered by banks like ANZ, can help address this problem by providing suppliers access to low-cost capital while simultaneously improving the cash to conversion cycle.[27]

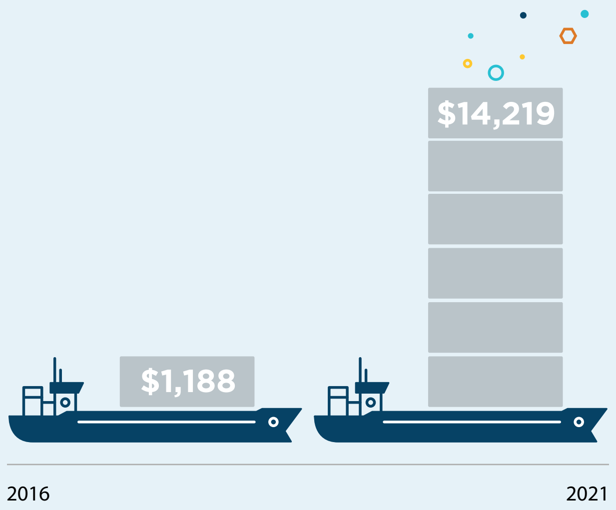
THE EFFECT OF COVID-19 ON GLOBAL SUPPLY CHAINS

HOUSEHOLD CONSUMPTION SURGED DURING THE PANDEMIC



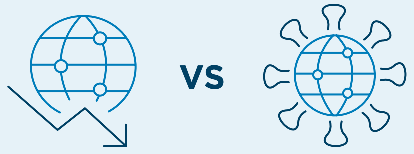
Source: ONS, BEA, StatCan, DESTATIS, CaO, Bloomberg, Marcobond, ANZ Research

CONTAINER SHIPPING COSTS HAVE SURGED*



*Freightos Index, USD/40'ft container – China to Europe
Source: ANZ Research

SPEED OF TRADE RECOVERY – GFC VS COVID-19



Trade volume recovered quickly and sharply after the initial blow due to the **COVID-19 pandemic**. This is in direct contrast to the **GFC** when recovery was slower and softer

Source: CPB, Bloomberg, Macrobond, ANZ Research

2. GEOPOLITICAL TENSIONS CATALYSE CONTINGENCY PLANS

Simmering away for years before the pandemic hit, the uncertainty infused into global trade by ongoing geopolitical tensions is a risk companies have been reckoning with for some time.

Looking ahead, two key themes are directly relevant from a global supply chain perspective.

The first is heightened competition between the world's two largest economies, the US and China. As attitudes harden among the governments and populations of both superpowers, the diplomatic rhetoric between them has shifted from cooperation to competition.[28] According to Cameron Mitchell, Head of Geopolitical Risk, ANZ, more entrenched, but also more predictable competition is to be expected in the future.

In response, companies around the world – including those in the Asia–Pacific region that have historically relied on trade with entities in the US and China – are stepping up efforts to diversify ties and business operations. "Most key trading partners are continuing to try to hedge between the two sides, hoping that they won't be forced to make a choice," says Mitchell. "At the same time, many are also starting to dust off their contingency plans like the 'China Plus One' strategy, in case the situation worsens."

Indeed, this trend is gaining ground with Asian economies growing their share of global trade in recent years. For example, a number of South Korean corporations – nine in 2018; 16 in 2019; 21 in 2020 – have moved production facilities back home[29] while Japan has been incentivising companies in China to move back or shift operations to other locations in Asia.[30]

India, too, is increasingly seen as an attractive regional hub for manufacturing.[31]

As Simone Fynmore, Head of Supply Chain Finance Product, ANZ, notes: "We are seeing customers – especially manufacturers of electronics, technology and consumer goods – expand their supply chain networks and their distribution centres so as not to have a heavy reliance on particular geographies."

Secondly, the rise of nationalistic sentiment and protectionist behaviour is fuelling the appeal of onshoring, nearshoring or streamlining certain supply chains, especially those linked to sensitive sectors such as semiconductors, telecoms, IT, pharmaceuticals and defence, according to Mitchell.

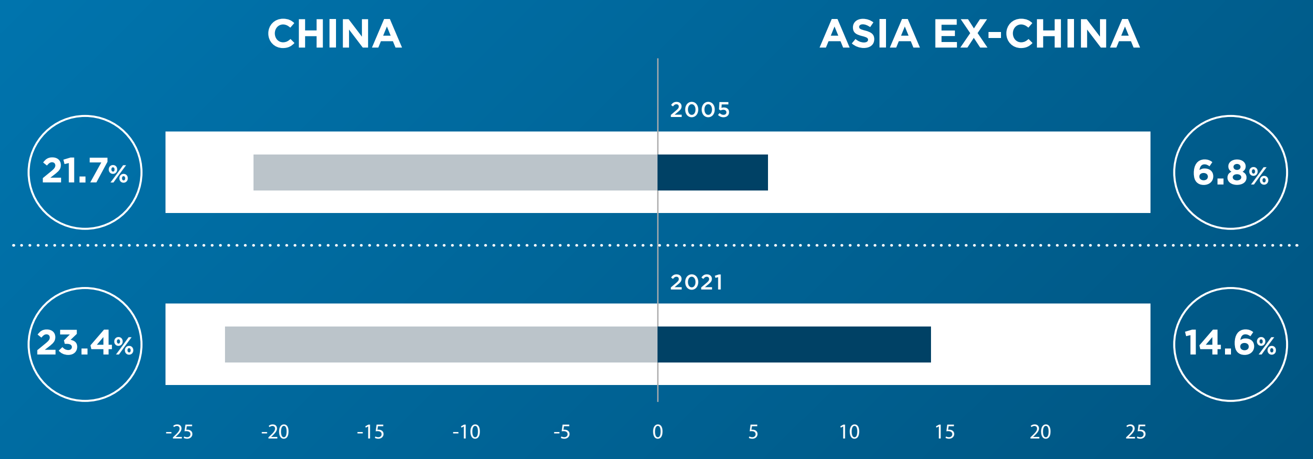
Yet it is important to recognise that following decades of globalisation, the redrawing of heavily interlinked supply chains that have directed global trade all these years is likely to prove expensive and inefficient, notes Mitchell. However, he argues, as practical realities come up against political will, it is increasingly likely that the added expense and inefficiencies of onshoring or nearshoring will be tolerated especially for sensitive sectors.

"…the rise of nationalistic sentiment and protectionist behaviour is fuelling the appeal of onshoring, nearshoring or streamlining certain supply chains…"

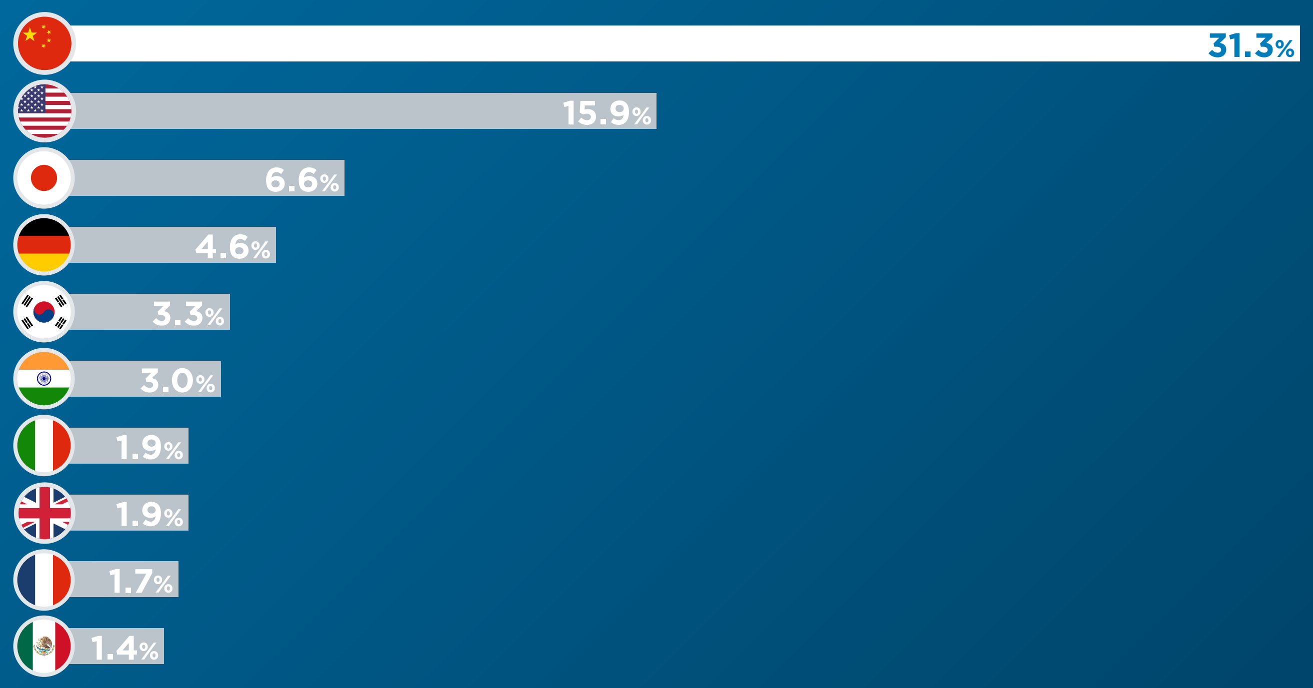
Cameron Mitchell – Head of Geopolitical Risk, ANZ

SHARE OF CHINA AND ASIA EX-CHINA IN GLOBAL TRADE

OWN EXPORTS AS A % OF WORLD EXPORTS



CHINA IS STILL THE WORLD'S MANUFACTURING SUPERPOWER
(% SHARE OF GLOBAL MANUFACTURING OUTPUT 2020)



Source: ANZ Research

At the same time, these upheavals present growth opportunities. For instance, as companies with long-established manufacturing facilities in China seek to enhance their regional capabilities by expanding into other markets, they will create new jobs and aid growth in these economies. With the formation of transnational groups like the Quad[32] comprising the United States, India, Japan and Australia – who will seek to increase collaboration on issues like global health, technological cooperation and defence sectors from a geopolitical perspective – this will bring about business opportunities for all stakeholders, notes Mitchell.

While the limited recasting of supply chains will produce fresh growth opportunities, businesses must also prepare for the heightened unpredictability of a changing world order, which has been in flux since the global financial crisis and is set to continue for the foreseeable future.

With companies actively looking to build alternate production bases or expand business operations into markets like Vietnam, Indonesia and India, banks can serve their institutional clients best by using their on-the-ground knowledge of specific markets to not only provide advisory services including local regulatory requirements but also to connect their clients to key players in the local ecosystem of any new market.

Such value-added service can be especially well-received as businesses attempt to get a better grip on the risks of operating in new, untested markets. With the right advice, businesses can divine outcomes well ahead of time, neutralise the impact of volatile trends and safeguard their supply chains and overall operations.

"Institutional customers are not only looking for economic updates on new markets; they are also craving answers to questions on what the various geopolitical risks mean for their operations," says Karen Brown, Director, Diversified Industries, ANZ. "As business partners, banks can provide value to their clients by delivering insights and views on the impact of these issues, and play the role of trusted advisers."

"We are seeing customers – especially manufacturers of electronics, technology and consumer goods – expand their supply chain networks and their distribution centres so as not to have a heavy reliance on particular geographies"

Simone Fynmore – Head of Supply Chain Finance Product, ANZ

SUPPLY CHAIN STRATEGIES

WHAT ACTIONS FIRMS ARE TAKING IN THE ASIA-PACIFIC REGION

CHINA PLUS ONE
12.6%

REGIONALISATION
22.3%
To the extent possible, we are moving our supply chains to countries surrounding our primary markets/end-users

LOCALISATION
20.6%
To the extent possible, we are moving our supply chains to be within our primary markets/end-users

DIVERSIFICATION
29.7%
To the extent possible, we are adapting our supply chains to source from a wide range of suppliers and/or sell into a wider range of markets

RESHORING
14.9%
To the extent possible, we are moving production back to the firm's home country

Source: Economist Intelligence Unit

3. AN INCREASINGLY UNEQUAL WORLD

The pandemic has exposed how unequal the world is and has thrown into sharp relief the distinction between the world's haves and have-nots, and the worsening nature of the problem.[33]

The stark gap between the developed world and emerging markets is exemplified by the disparities in countries' ability to access life-saving vaccines.[34] Yet another indicator is the growing levels of food insecurity – the Food Price Index was nearly 33 percent higher than a year ago[35] – aggravated by the rising prices of daily staples such as sugar, oils and cereal.[36]

As broken supply chains continue to keep food prices high,[37] they emphasise the cyclical nature of these challenges and the significant threat they pose – affecting not only the growth of emerging markets as well as the rest of the world, but also our collective efforts to promote a better and more sustainable future for the planet.[38] As Janakiraman notes, there is a need to strike a fine balance between making food affordable and protecting the environment, and this challenge has yet to be addressed.

The food industry, where the farm-to-table journey has become increasingly convoluted, is particularly representative of the unsustainable nature of some supply chains and the challenge this poses to addressing the problem of sustainable and equitable growth, points out David Leong – Head of Specialised Industries & Local Corporate, Joint Head of Coverage Singapore.

A classic example of the complexities of modern supply chains – mainly borne out of a pursuit of cost efficiencies – is the global seafood industry, where fish caught in Europe is typically sent to processing plants in Asia before being shipped to markets in North America.

"While this may be the cheapest option, it's not a sustainable one in the long run. Supply chains have become increasingly long and complex, and much of that is geared around lowest-cost delivery, often with sustainability as a secondary goal," he says. "One way to address this problem is to separate the product from the supply chain and the way it's delivered to the customer."

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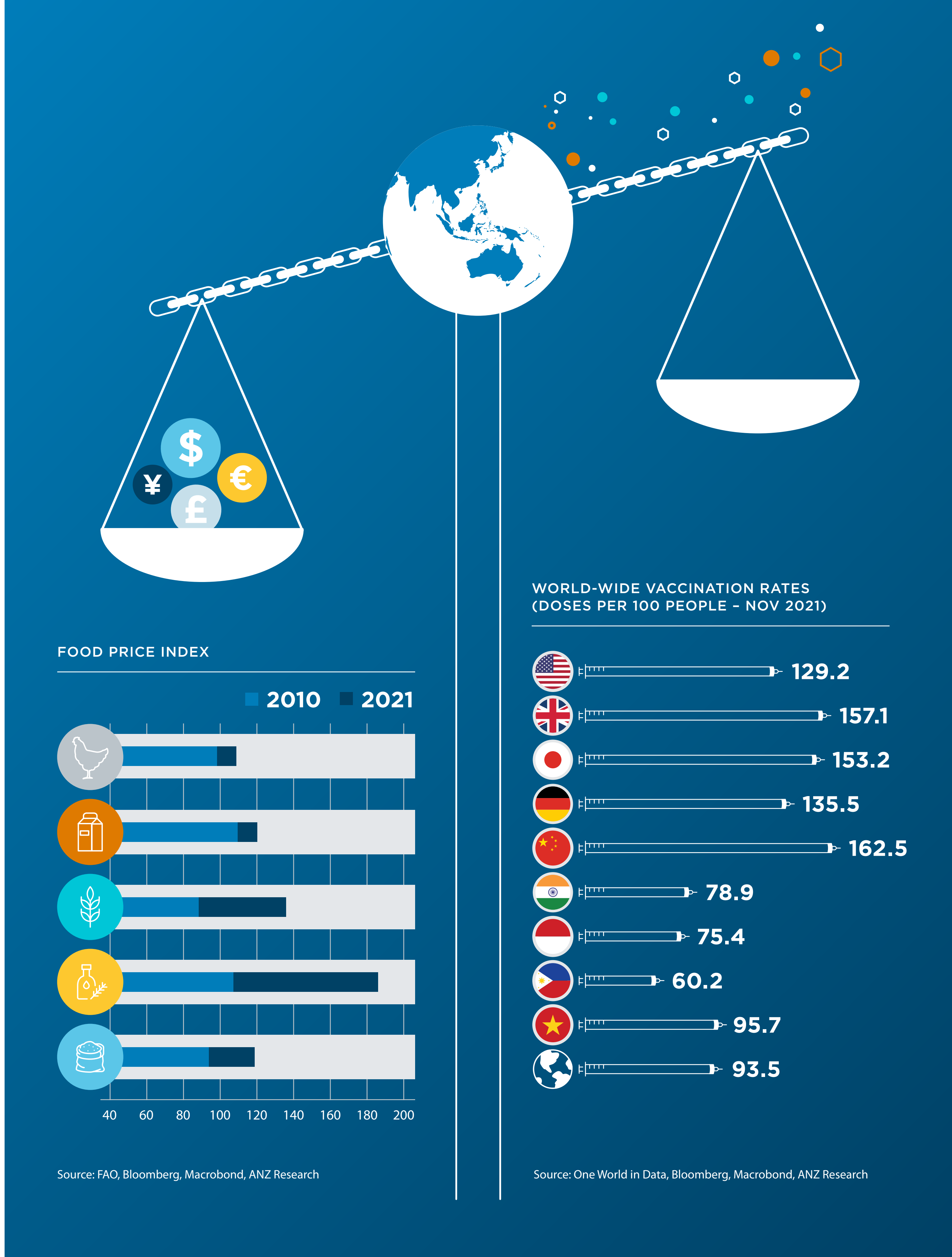


4. CLIMATE CHANGE AND SUSTAINABLE DEVELOPMENT

It comes as no surprise that increasingly environmentally-conscious consumers are playing a central role in encouraging companies to embrace sustainable business practices, including managing the environmental and social impacts of their supply chains.

At the same time as extreme weather events increase in frequency around the world, they expose the vulnerabilities of existing supply chains and the business case for actively addressing the risks climate change poses to the bottom line.

A growing number of risk experts in the Asia–Pacific region view climate change as a threat that needs to be monitored as a priority in the coming years.[39] And for good reason: studies show companies equipped to handle extreme weather events can minimise disruptions to their supply chain and limit losses to about 5 percent, while those that are unprepared can suffer up to a 35 percent hit on revenues.[40]

As awareness grows about the need for sustainable development practices – whose early iterations were centred around climate and environmental concerns – there is now a mounting focus on a broader spectrum of issues, which includes social and corporate governance concerns.

From pushing companies to rethink the use of plastic in packaging[41] to overhauling labour laws in emerging markets,[42] values-driven consumers are bringing about real change as concerns around natural capital, biodiversity and the circular economy start to garner more attention. There have also been calls for greater transparency to expose potential instances of modern slavery in supply chains.

Forty million people around the world are still affected by modern slavery. This is defined as the severe exploitation of other people for personal or commercial gain and takes many forms, including human trafficking, bonded labour and slavery of children[43] Regulators are taking note and as a result, legislation and other forms of reporting requirements have increased significantly in markets such as Australia,[44] New Zealand,[45] Europe,[46] the United States[47] and the United Kingdom.[48]

As scrutiny of procurement practices grows around the world, the expectation is that it will eventually help supply chains become more transparent and align to best practices from the bottom up and comply with rapidly evolving ESG norms – a trend that is already visible in industries dealing with commodities, such as cotton and palm oil. Such efforts receive a further boost when lending institutions turn their attention to these issues.

"Companies, especially those in the agricultural sector, have been genuinely surprised by the number of sustainability questions coming from investors and lenders these days," says Emily Tonkin, Executive Director, Sustainable Finance, ANZ. "This is in addition to the pressure coming from customers who need to improve sustainability in their supply chain. Sustainability strategies were only starting to receive a few questions even just one to two years ago, so this really is a fundamental shift."

As companies grapple with the challenges of balancing cost considerations with building a resilient business in compliance with sustainable practices, banks like ANZ, which provide crucial working capital and trade credit to these businesses can play a key role in incentivising their efforts as well as help them better anticipate and manage risks. In this way, sustainability need not become a casualty to cost considerations, which are ever-present in a competitive business environment.

CRO 12-MONTH RISK PRIORITIES – ASIA–PACIFIC

CAUSE OF PANDEMIC DISRUPTION TO SUPPLY CHAINS (% OF RESPONDENTS RANKING #1)

100% CLIMATE CHANGE RISK

89% CYBERSECURITY RISK

67% CREDIT RISK

56% OPERATIONAL RESILIENCE

33% TRANSITION TO DIGITAL STRATEGY/PROCESSES

22%
- RISK APPETITE
- OPERATIONAL RISK (excluding cybersecurity)
- LIQUIDITY RISK
- IMPLEMENTATION OF REGULATORY RULES/EXPECTATIONS
- FIRM'S CULTURE, BEHAVIOURS AND VALUES

11%
- RISK TECHNOLOGY ARCHITECTURE
- REPUTATIONAL RISK
- MODEL RISK
- MARKET RISK
- (GEO) POLITICAL RISK
- ENTERPRISE RISK MANAGEMENT
- EMPLOYEE RELATED RISKS (e.g. fatigue, mental illness)
- CONDUCT RISK (e.g. actions that violate laws or rules)
- CAPITAL ALLOCATION

Source: EY

5. TECHNOLOGY AND DIGITAL TRANSFORMATION

Just as rapid advances in technology – including cloud computing, Internet of Things (IoT) and 5G telecom – are driving a spate of digital transformation efforts across industries, they are also rapidly changing the nature of global supply chains.

For instance, enhanced automation technology is enabling the use of robots to efficiently move goods within a warehouse with Amazon being a key proponent of this method. Further, the retailing giant plans to invest more than USD300 million in 2021 alone to enhance automation and improve worker safety in its warehouses.[49]

In the agriculture sector, smart farming software is being used to crunch weather data and technologies such as cloud computing and IoT are being deployed to enhance crop yields.[50] The use of 3D printing is also growing across sectors – ranging from footwear to automotive components to life-saving medical devices such as implants and prosthetics[51] – as it aids the localised manufacture of highly customised products. Meanwhile, the growth of connected technology and the use of sensor devices is delivering data at a granular level to allow companies to introduce efficiencies at every step and enhance transparency across the value chain.[52]

"Technology will play a critical role in preserving the pace of innovation and allowing the continued functioning of a globally connected supply chain ecosystem," says Sherzad Desai, Head of Technology - Transport, Auto & Logistics - International, ANZ.

The emphasis that banks place on the importance of digital capabilities – ranging from cybersecurity to data science to machine learning – is a further testament to the potential of technology to transform risk management and, in turn, supply chains.

Real-time payments technology, which has the potential to revolutionise working capital management, is a case in point.[53] Australia's New Payments Platform (NPP), developed in collaboration with 13 banks and deposit-taking institutions including ANZ, addresses clients' needs by allowing near-instantaneous payments. Its versatility allows solutions to be tailored to the needs of the customer[54] and has attracted various institutions, including fintech startups, into adopting the system.[55]

Real-time payments are also increasingly becoming the norm in other parts of Asia. India is seen as leading the real-time payments market, processing over 40 million transactions a day,[56] followed by China and South Korea.[57] Meanwhile, in Singapore, transactions have grown nearly 50 percent in 2020 and are projected to increase further at a compound annual growth rate (CAGR) of 23.2 percent until 2025.[58] Countries in the region are also striking cross-border partnerships to link their real-time payment systems. For instance, Singapore's PayNow announced a linkage with Thailand's PromptPay in April 2021,[59] and has plans to connect with India's Unified Payments Interface (UPI) by July 2022.[60]

"From sensors and QR codes to machine learning and predictive maintenance, technology has brought many tools to improve supply chains, and make them cleaner and greener," Desai adds. "Technology also helps anticipate demand and enhance inventory management efficiencies. Most importantly, technology helps enhance the user experience, because that will be the differentiator as supply chains become democratised."

MOST IMPORTANT RISK MANAGEMENT SKILLS OVER THE NEXT THREE YEARS

75% CYBERSECURITY

74% DATA SCIENCE

57% CLIMATE CHANGE

51% AI-BASED MODEL RISK MANAGEMENT

48% DATA MODELLING

46% OPERATIONAL RESILIENCE/ BUSINESS CONTINUITY

38% GOVERNANCE, RISK AND CONTROLS

36% MACHINE LEARNING

36% CREDIT RISK

11% EMOTIONAL INTELLIGENCE

Source: EY

6. ENHANCED REGULATORY FOCUS

In 2020, nearly a quarter of all CFOs were found to rely on supply chain finance to manage their cash flows as they coped with the impact of the pandemic.[61]

As supply chain finance grows in popularity and at the same time becomes increasingly sophisticated, there is a growing body of legislation that treasury managers must take into account.

While some regulations are aimed at making opaque global supply chains more transparent, others are focused on protecting small businesses.

"Over the past two to three years, there have been some significant public standards announced when it comes to supply chain products. And all of this has led to more scrutiny on supply chain practices, including on the use of artificial intelligence and machine learning technologies to set prices that may have an adverse impact on small business suppliers," says Janakiraman.

In Australia, for example, the Small Business and Family Enterprise Ombudsman has recommended legislating maximum payment terms of 30 days from receipt of invoice from small businesses and has called on supply chain finance providers to cease doing business with companies extending payment times to small businesses beyond 30 days.[62]

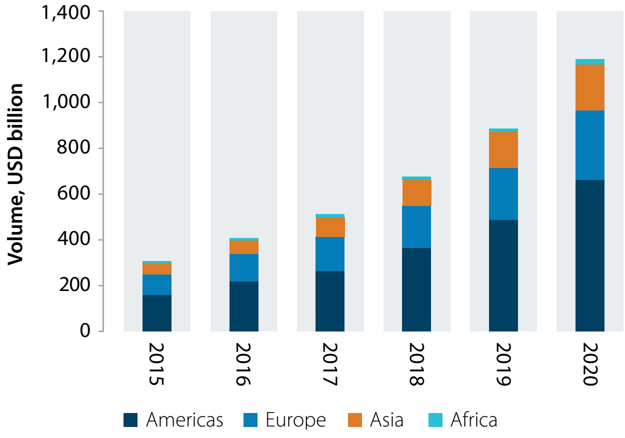
Governments of other nations are taking action too, aimed at promoting change on various fronts. In Singapore, the Green Finance Industry Taskforce (GFIT) has issued guidelines for climate-related disclosures by financial institutions as part of its efforts to improve reporting norms and promote the take-up of green finance.[63] In Indonesia, the country is introducing legislation to fight plastic pollution and improve waste management practices[64] while the Indian government's push for the use of electronic invoices is expected to accelerate the digitisation of supply chain finance in the country.[65]

Further, the International Accounting Standards Board (IASB) is addressing concerns from investors and regulators by considering a set of rules requiring the disclosure of financial statements by firms that use supply chain finance.[66] If approved, these changes could affect companies operating in most major markets around the world, including in Asia–Pacific.

As companies navigate the dynamic regulatory landscape across the region, they are turning to their banking partners for advice and operational support.

"We've been having some very specific dialogues with our customers here in the Australian market, to more clearly articulate how we can work through the regulatory environment governing supply chain finance," says Fynmore.

SHARE OF CHINA AND ASIA EX-CHINA IN GLOBAL TRADE



Source: Fitch Ratings, BCR

THE SUPPLY CHAIN FINANCE REGULATORY ENVIRONMENT IN AUSTRALIA: AN OVERVIEW

In Australia, supply chain finance is subject to growing scrutiny both from the government and the media.[67] In July 2021, the Parliamentary Joint Committee on Corporations and Financial Services conducted a hearing to address weaknesses in the supply chain finance ecosystem and further scrutiny by the committee is likely.[68]

These actions followed a review in March 2020 by Australia's Small Business and Family Enterprise Ombudsman into supply chain finance for small and mid-sized businesses. The watchdog's report recommended a number of legislations, including 30-day maximum payment terms. While this has not been legislated, alternative requirements have been implemented. The Payment Times Reporting Scheme, which came into effect in January 2021 requires all large corporates with an annual income of over $100 million to disclose their payment terms and practices as they relate to small business suppliers.[69]

Accompanying the regulatory focus has been the growing media spotlight on accounting standards and levels of transparency to be found in the supply chain finance operations of large corporations. In turn, this has led to mounting concerns among Australian companies and a growing sense that supply chain finance is 'too hard'.

Regulations are also being expanded to include issues such as human rights and other ESG considerations that come into play across the broader supply chain. The Modern Slavery Act,[70] introduced in 2018 requires companies of a certain size conducting business in the country to report the risk of modern slavery in their operations as well as the steps they have taken to address the issue.[71]

As companies navigate a fast-expanding web of regulations while recovering from the devastating impact of the pandemic, they need a trusted partner to address this dual challenge. ANZ, which has been acknowledged as the No.1 Institutional Bank across Australia, New Zealand and Asia for relationship strength and quality,[72] can support customers with our sustainable supply chain finance programme, which provides the typical benefits of a traditional solution along with the additional advantages of funding, incentivising and rewarding sustainable supply chain behaviours.[73]

SUPPLY CHAIN FINANCE: FACILITATING SUSTAINABLE GLOBAL TRADE

As companies adapt to new ways of doing business engendered by the pandemic, they are also increasingly optimistic about the future.

Most expect a period of aggressive growth in the coming months combined with a focus on building resiliency into their business processes with the help of ongoing digital transformation efforts and new operational models, such as hybrid or blended working, perfected at the height of the pandemic.[74] Such resilience will prove useful in handling current and future crises, as demonstrated by the emergence of the Omicron variant of COVID-19 towards the end of 2021, which brought with it fresh disruptions to the global economy and tempered growth expectations.[75]

Upgrading supply chains so they are resilient to future crises and conform to sustainable development norms is a key part of that effort. Managing supply chains used to be just about procuring raw materials with maximum efficiency and at minimal cost. Now there is a growing realisation, heightened by the pandemic and other challenges, that in order to protect the integrity and security of the supply chain, the interests of all stakeholders up and down the value chain must be preserved and the benefits shared across the board.

RETURNING TO NORMAL

HOW WOULD YOU BEST DESCRIBE THE CURRENT STATE OF YOUR BUSINESS?

40%	26%	26%	6%	1%
ACCELERATED GROWTH	STILL STABILISING – IN RECOVERY	FOCUSED ON BUSINESS CONTINUITY	BUILDING BUSINESS RESILIENCY	DECLINING

WORKING MODELS

IN RESPONSE TO THE COVID-19 GLOBAL PANDEMIC, WHICH OF THE FOLLOWING MODELS DOES YOUR COMPANY ANTICIPATE OPERATING UNDER FOR THE NEXT 12 MONTHS?

24%	37%	37%	2%
ON-SITE WORKFORCE	REMOTE WORKFORCE	HYBRID WORKFORCE	DON'T KNOW/NOT SURE

Source: CFO[76]

HELPING CLIENTS BUILD BACK BETTER

As companies move ahead in their efforts to build a sustainable supply chain ecosystem, their chief financial officers and treasury departments are most concerned about three key issues, namely, liquidity management, risk management and digital transformation, according to Jessie Yim, Head of Global Subsidiaries Group, Singapore, ANZ.

From ensuring the flow of cash continues uninterrupted across the operation to accurately assessing risk at a time when business insolvencies are on the rise[77] and expected to worsen further,[78] corporate treasurers face a multitude of challenges. At the same time, they also have to keep pace with technological developments. For example, adapting cash flow management processes to the instant timelines mandated by real-time payment systems revolutionising operations worldwide is a constant battle.

Even as a growing number of companies ramp up investments in replacing legacy systems with digital alternatives,[79] they are turning to their banking partners for solutions to adapt to the disruption these changes pose to their operations.

Banks, in turn, are recognising the value they can bring to their clients, and rapidly building capabilities. These can include providing advisory services to help clients get the most out of their digitisation process; providing access to top-rung technology partners who can successfully execute the transition; and financing and risk mitigation solutions tailored to optimise working capital and liquidity requirements in both domestic and international supply chains. Furthermore, banks are helping clients as well as their suppliers transition to sustainable business practices with innovative supply chain finance products and solutions.

Banks are also overhauling their internal systems and processes in order to satisfy the heightened security needs of their clients. Because, as Yim says: "Our clients are asking us how we manage risks within the bank and they want the assurance that our systems can perform safely and capably to meet their changing needs."

As the forces of nationalisation fail to dampen the appetite for global expansion – the flow of foreign direct investment into the Asia–Pacific region rose four percent in 2020[80] – companies will continue to require expert advice on venturing into and setting up shop in new countries. And global banks can provide crucial guidance and intelligence about the operational and regulatory environments in these markets thanks to their local presence and networks.

"Banks like ANZ (which has a presence in 33 markets globally) can deliver holistic solutions, including on-the-ground expertise about the local business environment as well as regulatory and political developments, and help clients find reliable partners to work with," says Yim.

Overall, given that the financial supply chain is integral to the efficient functioning of the physical supply chain, solutions designed to optimise working capital and liquidity play an essential part in supporting banks' customers and their suppliers to build a robust and crises-proof network of domestic and international supply chains.

INDUSTRY INSIGHTS WITH LISA VASIC, MANAGING DIRECTOR, TRANSACTION BANKING

SUPPLY CHAIN DISRUPTION

One of the larger effects of the pandemic has been the disruption to global supply chains. We're seeing it in bottlenecks at ports around the world as well as in a shortage of shipping supply.

APIs

Today, with open-source software and the increasing use of application programming interfaces (APIs), businesses can plug into diverse systems to get a detailed view of whole supply chains.

"At the same time as dealing with logistical supply chain disruptions, businesses are also expected to more closely examine the environmental, social and governance (ESG) impact of their supply chains."

WHOLE-OF-OPERATION VISIBILITY

Whole-of-operation visibility is especially important right now as businesses use working capital to shore up their supply chains by stocking up on materials and inventory levels.

INCENTIVISING SUSTAINABLE PRACTICES

As demand for sustainable finance jumped in the wake of the pandemic, the size of the global market for sustainable debt now exceeds USD3.5 trillion with issuances in 2021 rising to USD1.19 trillion by September-end,[81] compared to USD760 billion in all of 2020.[82]

This is a clear indicator of the magnitude of the demand and the crucial role banks and financial institutions have to play in channelling much needed capital towards funding the transition to sustainable growth practices.

From providing financing at preferential rates for customers that meet pre-determined sustainability targets to providing guidance on what is expected by stakeholders regarding ambitious long-term plans to cut emissions, there are a number of ways in which banks are proactively supporting the move to a sustainable world.

"Instead of just reacting to customer requests, banks must proactively encourage their clients to move towards sustainable business practices. Lenders can do so by clearly communicating their sustainability policies to their customers and working closely with them to help them adopt those policies in their day-to-day operations. Such efforts when replicated at scale will help to incentivise the wider supply chain to become greener," says Janakiraman.

As banks move to encourage and support their clients in their quest for sustainable growth in greater numbers, the region has witnessed a slew of sustainable finance products and solutions come to market.

While green, social and sustainability bonds have been around for a while and have gradually gained traction across the Asia–Pacific region,[83] banks are receiving approval for new products like green deposits and sustainability-linked derivatives.

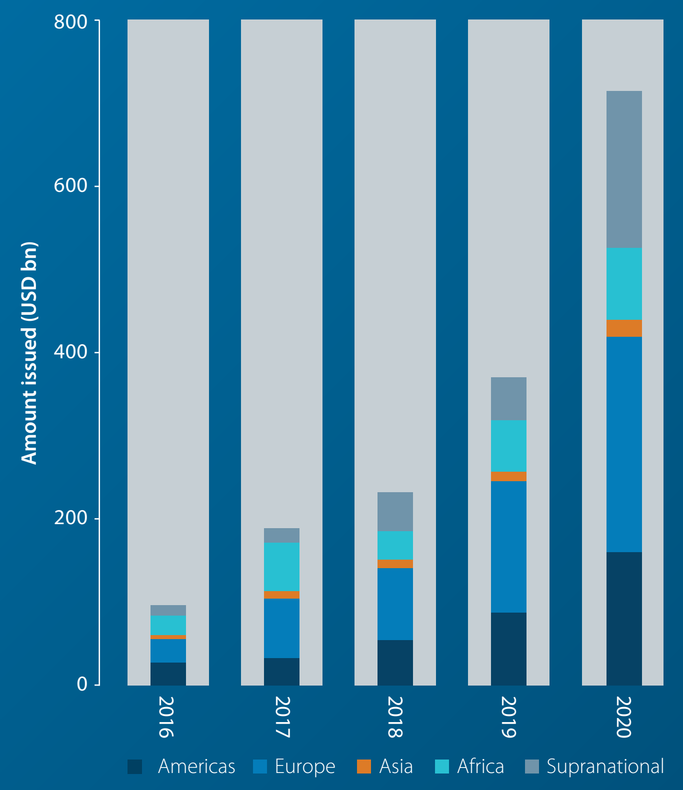
A sustainability-linked derivative comes with a pricing component tied to the sustainability targets of the underlying bond or loan. Green deposits, which are ideal for directing funds towards environment-friendly projects, are becoming the product of choice for banks looking to capitalise on the growing awareness of ESG-related issues among consumers, especially in the region's relatively underpenetrated emerging markets.[84]

ANZ has a group-wide target to fund over AUD50 billion (USD36 billion) worth of sustainable solutions by 2025. Since October 2019, the bank has funded and facilitated AUD21.95 billion towards the target, of which AUD12.18 billion is funded and AUD9.77 billion is facilitated.[85] This is with the help of use-of-proceeds loans and bonds as well as transaction banking products, such as guarantees and supply chain solutions.

"Instead of just reacting to customer requests, banks must proactively encourage their clients to move towards sustainable business practices. Lenders can do so by clearly communicating their sustainability policies to their customers and working closely with them to help them adopt those policies in their day-to-day operations. Such efforts when replicated at scale will help to incentivise the wider supply chain to become greener"

Hari Janakiraman – Head of Industry and Innovation, ANZ

ASIA–PACIFIC GSS* ISSUANCE CONTINUES TO GROW, ACCOUNTING FOR 23% OF GLOBAL ISSUANCE IN 2020



*GSS - green, social and sustainability (GSS) issuance
Source: Climate Bonds Initiative

ANZ, which closed Australia's first sustainability-linked loan in 2018, sees such products as a natural evolution of the sustainable finance market. In line with growing demand,[86] the bank closed the first sustainability-linked bond in the Australian dollar bond market in June 2021 and launched the first sustainability-linked derivative in Australia in August 2021. ANZ also expanded its green finance product mix in markets around the world in 2021, including offering green guarantee facilities to clients in Hong Kong, Singapore, Europe, Australia and New Zealand.[87]

Even as banks devise innovative financial products that are growing in popularity, calls are growing from clients for greater support and practical assistance to help them better track activities across the entire supply chain to ensure the activities of downstream and upstream suppliers are in line with their sustainability principles and ESG commitments.

According to Tonkin, investors and broader stakeholders are increasing their scrutiny of companies as well as the banks that finance them.

This reflects the rapidly growing focus on Scope 3 emissions by investors and other stakeholders. Reporting of Scope 3 emissions, which requires tracking emissions of a particular organisation and also its business partners up and down the value chain,[88] is becoming increasingly common and could be mandated in the future. Such reporting provides a more accurate picture of the total greenhouse gas emissions for which a company is responsible.

"There is a much greater need for high quality data to provide 100 percent transparency across the supply chain," Tonkin says, adding: "However, much more work needs to be done around that and what we really need to invest in is new technologies and innovations to support this process."

"There is a much greater need for high quality data to provide 100 percent transparency across the supply chain"

Emily Tonkin – Executive Director, Sustainable Finance, ANZ

SUPPORTING THE TRANSITION TO NET ZERO EMISSIONS

ANZ is committed to playing a part in supporting the transition to net zero emissions by 2050.

The most important role the bank can play in meeting the Paris Agreement goals is to support its customers' transition to net zero emissions, and enhance their resilience to a changing climate. ANZ supports an orderly transition that recognises and responds to social impacts. This aligns with the bank's purpose to shape a world in which people and communities thrive.

As part of ANZ's approach, the bank has engaged with 100 of its largest emitting business customers, supporting them to establish and, where appropriate, strengthen existing transition plans.

Customers have valued ANZ's engagement on this topic, and its perspectives. A number of customers outside of the 100 have sought to engage with the bank, seeking clarity on its expectations, or requesting suggestions to improve their approach.

While ANZ's original target was aimed at supporting customers (where applicable) to establish their plans, the bank recognises that amongst the group of 100 there are now few at that stage – rather, they are at various stages of implementation even if they have not disclosed their plans publicly. The bank's focus now is on supporting its customers' efforts to implement or, where a plan is less developed, strengthen their transition plans.

While ANZ considers this to be good progress, the bank understands there is still much to be done. That is why it has committed to continue supporting these larger emitting customers to implement and, where appropriate, strengthen their low carbon transition plans and enhance their efforts to protect biodiversity by end-2024.

EMBRACING TECHNOLOGY AND TEAMWORK

Unsurprisingly, banks across the region are turning to technology to promote sustainable supply chain finance.

This includes leveraging their know-how of customer trade flows and local networks and complementing their in-house technological expertise by striking key partnerships with external partners, including technology providers and fintech companies.

This approach meshes well with a growing trend among banking clients to turn to multiple providers of supply chain finance as they seek to meet the pressing demands of rapidly diversifying operations. In the food and agricultural sector, for instance, opportunities will arise for banks to help meet the scarcity challenge by using technology to provide real-time market information to farmers as well as mid-stream players, according to Leong.

Elsewhere, sensors and drones have already started revolutionising warehouse management even as digital currencies and tokens offer the promise of nascent yet unproven potential. However, it is blockchain – which is being increasingly adopted around the world to record transactions and track assets – that is seen as having the greatest potential to promote transparency throughout the global supply chain.

For instance, blockchain technology ensures audit reports that examine compliance across the supply chain cannot be tampered with. This also helps banks make better lending decisions by allowing them to easily view and verify transactions between their clients and suppliers across the entire supply chain finance pipeline.[89]

"Blockchain is one way we can get the level of transparency and robustness needed to track supply chains and the larger risks around them, and use that information to make more informed decisions going forward," says Tonkin.

"Integration of technology such as Blockchain and IoT devices is going to be huge in ten years' time. Everyone will know where every single product has come from and it's going to be fascinating when that happens."

As banks move to experiment with and embrace brand new technologies, a recommended approach is for traditional players to forge stronger partnerships with fintechs, according to Fynmore. Such partnerships help bring a wider variety of financial solutions to clients,[90] allowing greater automation of information gathering and analytical capabilities. This in turn helps to provide companies with greater visibility throughout the value chain. Further, the success of such an approach can be greatly enhanced if banks remain agnostic about their clients' choice of fintech platforms and ensure supply chain finance products and solutions mesh seamlessly with them.

"Ensuring sustainable practices are adhered to across the supply chain involves finding an efficient way to review suppliers and confirm they're meeting certain ESG criteria, which involves a huge amount of data and documentation," Fynmore points out. "Banks must explore partnerships with technology providers that can enable broader reach, increase scalability and enhance reporting capability. This way we can provide the customer with enhanced capabilities to manage their working capital and introduce greater transparency up and down the supply chain."

BLOCKCHAIN SUPPLY CHAIN INNOVATION

1. DEVELOP
Gain greater access to source material data to better inform R&D material choice and enable closed-loop design

2. PLAN
Increase opportunities for co-planning and forecast sharing between suppliers and customers, decreasing forecast and associated inventory risk

3. SOURCE
Decrease sourcing and administration costs by replacing paperwork with smart contracts and transactions recorded on the blockchain; drive 'business initiatives' by enabling transparent sourcing

4. MAKE
Increase visibility and compliance or outsourced manufacturing

5. DELIVER
Provide regulators and end consumers with a clear picture of all product steps along the supply chain journey

6. RETURN
Determine which batch to recall based on information availability; decentralise return merchandise authorisation

Source: Deloitte

ANZ IS AN EARLY MOVER IN THE AREA OF SUSTAINABLE SUPPLY CHAIN FINANCE

It is the first Australian bank to introduce a sustainable supply chain finance programme - launched in December 2020. The programme, which is embedded into payables and receivables finance, involves three actors - the supplier, the purchaser and ANZ. The bank reduces the difference between the invoice sent by the supplier and the remittance paid by ANZ if the supplier can show evidence – usually through certifications – that their products are sustainable.

It is part of an ongoing effort to work with the bank's customers and further embed sustainability - not just across supply chain finance but also across all of its product suites. These efforts include the bank's sustainability performance linked pricing (SPLP) mechanism,[91] tieing borrowing costs to specific key performance indicators (KPIs), which – when met – can result in a lower cost of capital for a borrower, issuer or supplier; and conversely, pricing increases if there is a regression in performance.

BUILDING A SUSTAINABLE AND RESILIENT SUPPLY CHAIN

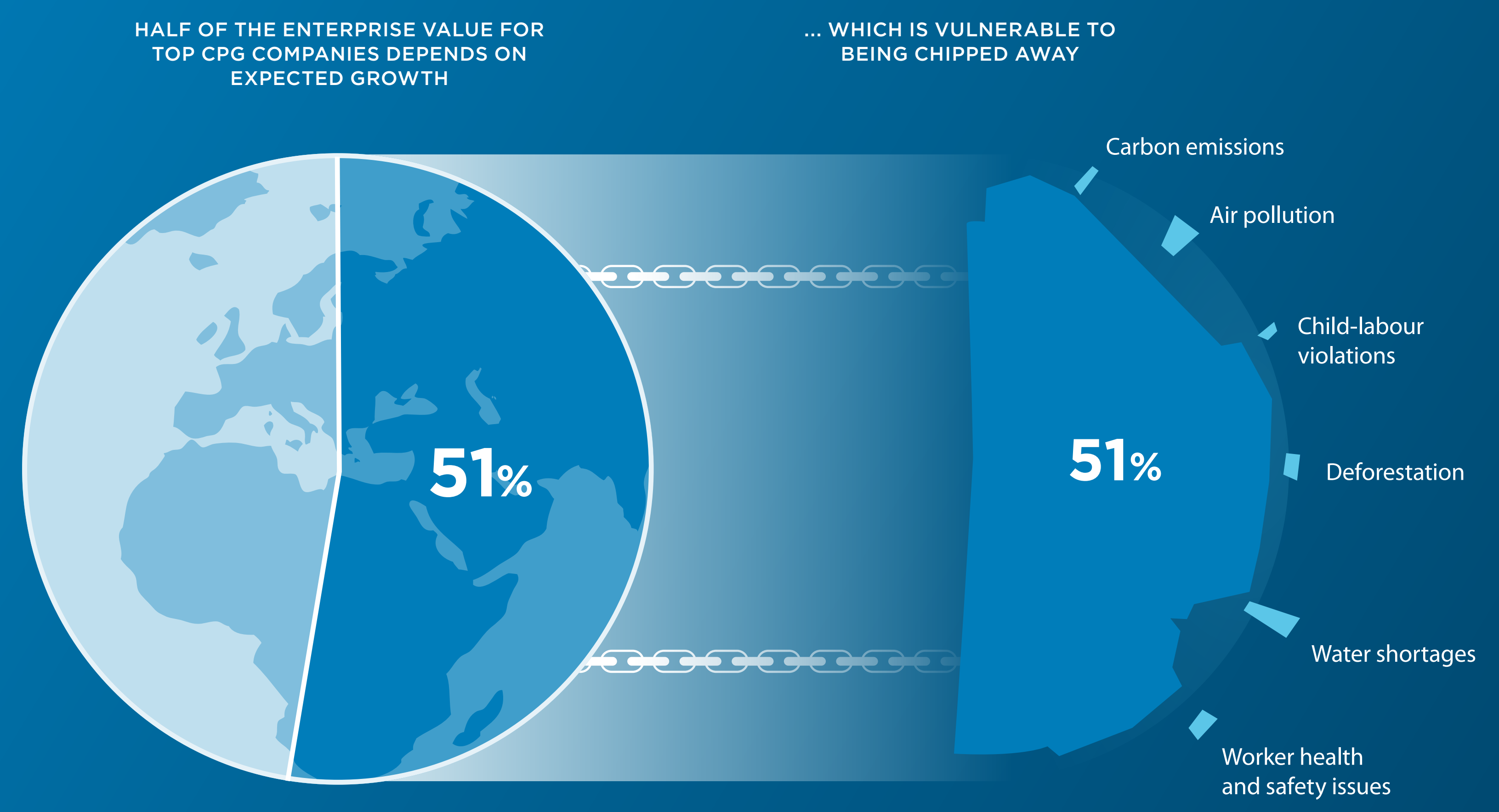
As the push for sustainable development gains momentum, driven by key stakeholders such as investors, financiers, regulators and customers, and the scope broadens from mitigating climate risk to broader social considerations in line with global targets such as the UN Sustainable Development Goals,[92] its impact is beginning to be felt across the global supply chain.

These range from efforts to reduce plastic waste, which has tripled in the past two decades,[93] by increasing the use of recyclable materials, to ensuring worker safety standards.[94] There has also been an uptick in corporate commitments to enhance diversity and inclusion (D&I) in the workforce, and reduce global inequality across various measures, including access to education and health care.[95]

As the focus grows on D&I in the workforce, it's also being reflected across the supply chain with increasing expectations for diverse representations of suppliers. For instance, in Australia, this can be found in the form of First Nations procurement targets. There is also a growing awareness of less understood issues – such as proliferation finance[96] and modern slavery – that are hard to track and continue to taint supply chains of various industries.

"Sustainability is certainly something that is front of mind. This trend will increase in the future, together with the focus on climate change risks. They are not the same, but are often linked as they have the same drivers - especially from a sustainability front," says Brown. "Companies are increasingly under pressure to ensure their supply chains are compliant with regulations, which requires them to have a good understanding of their suppliers' processes and how they procure their goods. It cannot be overstated how important this will be for the future."

AVERAGE FOR TOP 50 PUBLICLY TRADED CONSUMER-PACKAGED-GOODS (CPG) COMPANIES



Source: Mckinsey

SUPPLY CHAIN FINANCE AS THE FACILITATOR

The task to bring transparency and introduce sustainable practices to global supply chains is far from straightforward and is further complicated by how interlinked they have become in a global, digitalised marketplace.

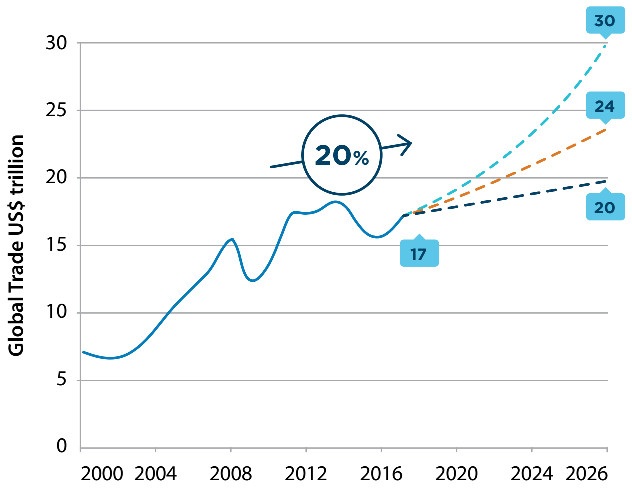
First, there is the issue of plugging a nearly USD2 trillion trade finance gap.[97] The divide between what borrowers need and what banks are prepared or able to provide poses a major hurdle to global trade and economic development. Ensuring global supply chains become ESG-compliant and crises-proof is a resource-intensive process. The global push to achieve net-zero carbon emissions by 2050 alone will require an estimated USD1 trillion to USD2 trillion a year of additional investments.[98]

Supply chain finance and its providers have a key role to play in plugging these twin gaps by providing a range of solutions aimed at facilitating the flow of capital to where it's needed and promoting the growth of global commerce in a way that ensures efforts to embrace the tenets of sustainable development do not become prohibitively expensive.

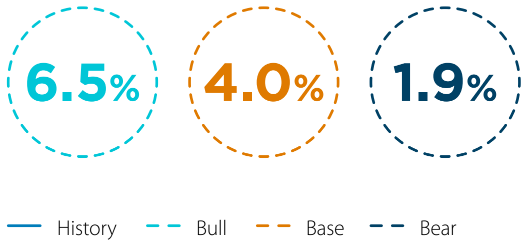
Along with providing the liquidity and financial security that companies need to operate a successful business, supply chain finance also helps shield businesses from the various risks discussed in this paper, notes Janakiraman. Take geopolitics for example – a Taiwanese chipmaker with a manufacturing base in mainland China and selling to a US-based technology company can transfer the geopolitical risk inherent in such a transaction to a bank through an effective supply chain finance product.

As Fynmore says: "Supply chain finance is the lubricant that keeps the physical supply chain going. They are so closely interlinked, a robust and effective physical supply chain needs to be fuelled by an efficient financial supply chain."

GLOBAL TRADE IN US$ TRILLION

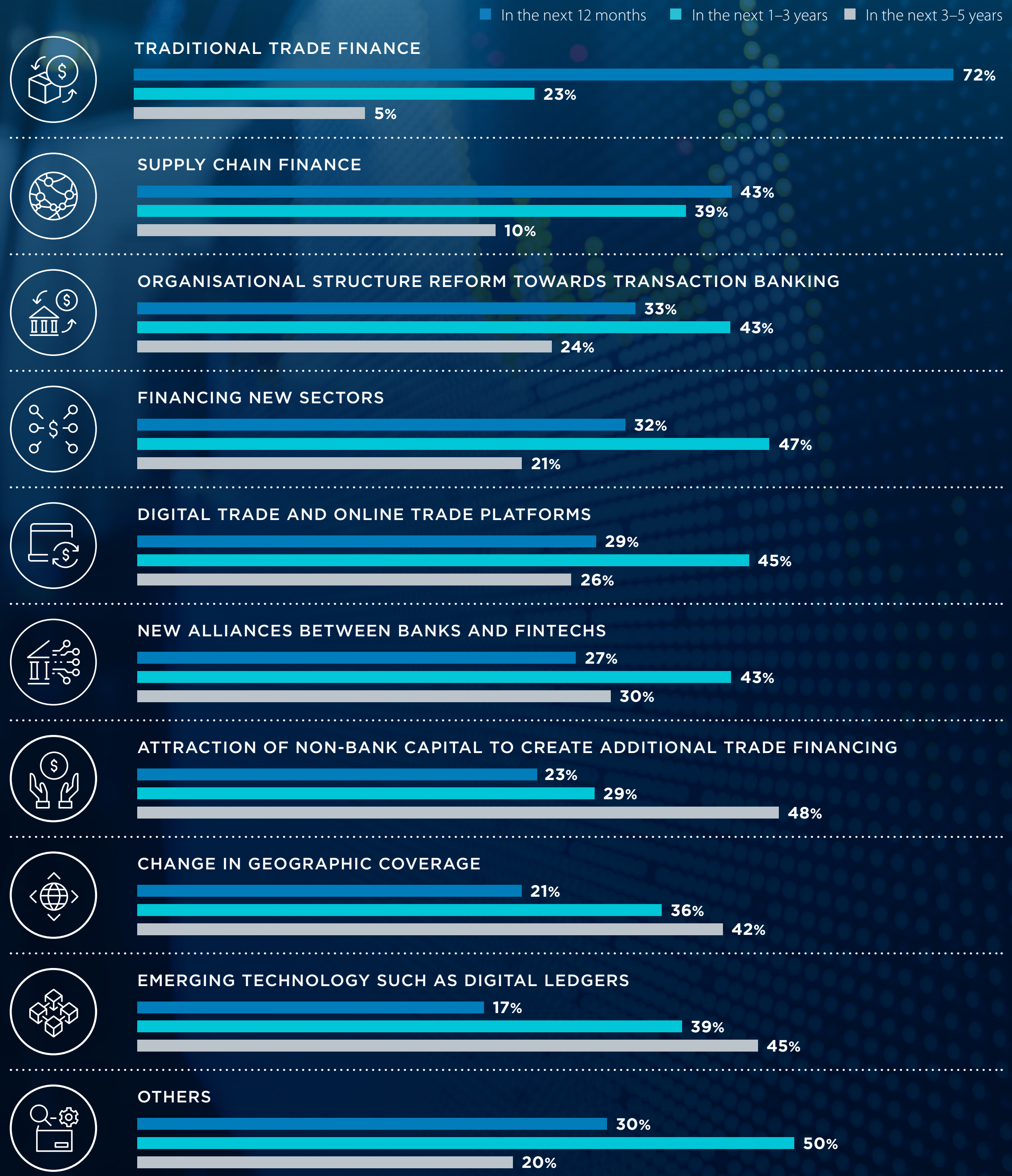


CAGR (2017–2026)



Source: ANZ Research

CLOSING THE TRADE FINANCE GAP



Source: ANZ Research

TECHNOLOGICAL ADVANCEMENT AS THE ENABLER

Technology is increasingly being applied to all aspects of the supply chain. It provides access to highly granular data that ensures visibility and traceability throughout the supply chain and in turn, enables producers to anticipate and meet demand in time.

It also helps companies manage complex networks of suppliers, including tracking the movement of goods around the world in real time, managing contracts and processing payments in real-time. "Overall, digitisation enables disintermediation, which is critical because supply chains are most efficient when they are market-driven," notes Leong.

According to Desai, the auto industry provides an ideal example of how these linkages work and drive efficiencies. Automakers rely on various suppliers, including semiconductor fabrication plants that make the chips, which are the brains of a modern vehicle, and software companies that write the code that drives onboard computers to the manufacturers of various dashboard electronics and everything in between.

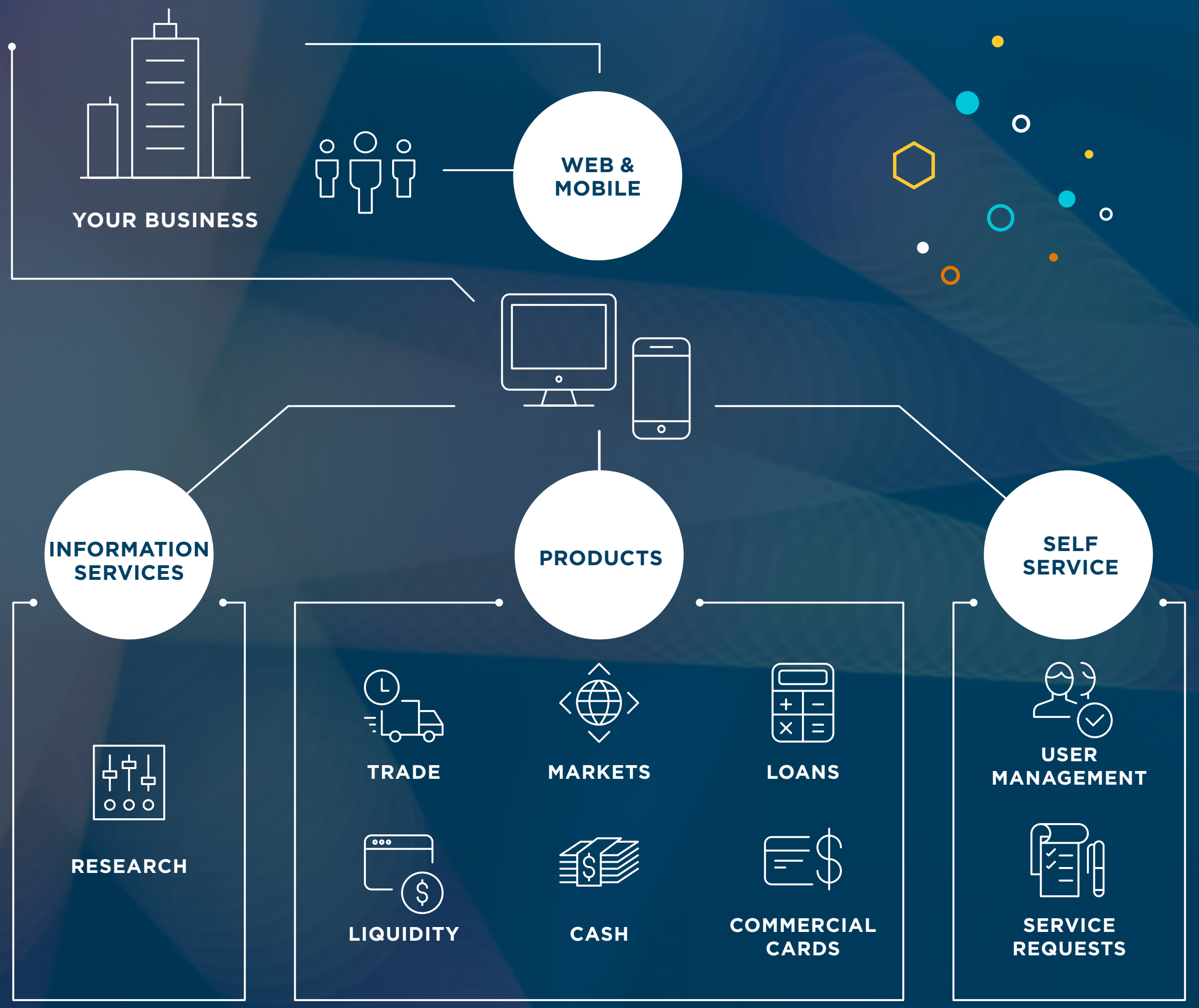
Here too, supply chain finance plays a critical role, fostering the uptake of new business practices and technologies, which in turn help transform the physical supply chain. This trend has especially picked up pace as banks increasingly recognise the need to break down operational silos by partnering with software providers and fintechs. Such collaborations enable banks to introduce new technologies to overhaul legacy practices and help clients transform their approach to treasury and supply chain management all at once.

"Overall, digitisation enables disintermediation, which is critical because supply chains are most efficient when they are market-driven"

David Leong – Head of Specialised Industries & Local Corporate, Joint Head of Coverage Singapore, ANZ

IMPROVING YOUR DIGITAL BANKING EXPERIENCE

ANZ's strategy is to continue to expand our digital solutions across all of ANZ's Institutional products and services, providing an easier way for our customers to connect with us.



ANZ TRANSACTIONAL PLATFORMS

ANZ is working on various transactional platforms to enhance efficiencies, enable trading across more jurisdictions, and facilitate partnerships with other institutions or partners to provide more seamless coverage to customers around the world.

From processing simple low-cost business transactions to managing cash flows for a high-volume business, there are a variety of transaction banking solutions available.[99] The bank is also focused on upgrading existing systems and embracing technology, such as payments systems like the NPP and partnering with fintechs, such as Airwallex, a provider of business banking accounts, and Revolut, a payments service provider, to better serve its clients' evolving needs.[100]

KEEPING SUSTAINABLE DEVELOPMENT FRONT AND CENTRE

Looking ahead, it is clear that businesses, supported by their banking and technology partners, will strive to build sustainable businesses and resilient supply chains capable of withstanding future shocks.

In doing so they will find that the near-term future of supply chains will continue to be dictated by the pandemic and its aftereffects, while related issues such as high freight costs will eventually ease as capacity increases. In the medium term, geopolitical trends and national security interests will prove to be major influences.

Companies should also be mindful of a number of operational considerations. For one, in order to successfully pursue a diversification strategy like 'China Plus One,' it is essential to identify markets with the kind of physical infrastructure that China has built up over the past four decades to help keep time-to-market and production costs low. The supply of industrial land at the right prices is critical and so too is the availability of a trained labour force as well as port capacity, an uninterrupted power supply and a well-developed transport infrastructure.

Meanwhile, the expanding divide over technology and data governance, and the lack of global standards that complicate cross-border digital trade and data transfers, could lead to higher operating costs and regulatory risks for businesses as well as their lenders. Further, the lack of clear global guidelines to define ESG standards or other sustainable development metrics also pose a hurdle.

This problem is even more acutely felt in the Asia–Pacific region where individual markets are subject to a mosaic of local and regional laws, notes Leong, adding that concerted action from the public and private sectors is the need of the hour.

There are various working models that provide a blueprint of sorts. In the food and agriculture sector, for instance, China's green development programme has enabled the adoption of sustainable production methods while increasing agricultural productivity. The effort has also contributed to enhancing the country's food security situation by facilitating the smooth flow of produce, in turn, instilling greater confidence among all stakeholders, according to Leong.

"It is key to obviate bad policy choices like shutting off trade and hoarding. Instead, facilitation is key, especially when it comes to the movement of strategic or high value goods across borders," he says. "Trust, transparency and trade facilitation are the three most important things, both from a public and private perspective."

In the private sector, banks like ANZ are taking a proactive role on all three counts by participating in a number of working groups – such as The Equator Principles and the International Chamber of Commerce – which help set sustainability standards for both export finance and trade finance.

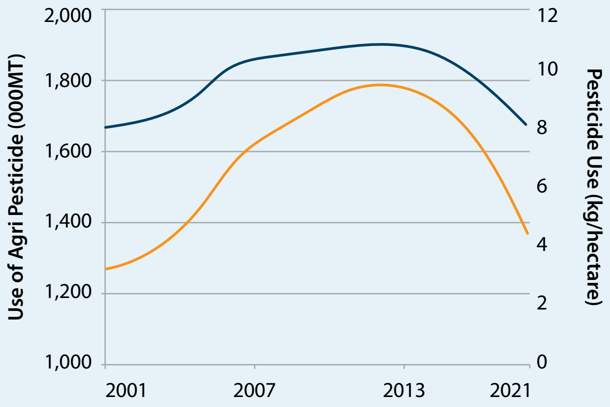
"As a bank we have been trying to help clients achieve specific targets. However, more work needs to be done in refining standards, especially in relation to very large and critical supply chains, in order to help them move in the right direction," notes Desai.

CHINA GREEN DEVELOPMENT HAS GAINED PACE

CHINA WILL CONTINUE TO PRODUCE MORE SUSTAINABLY, PROTECTING ITS SCARCE ARABLE LAND

PESTICIDE USAGE CHINA

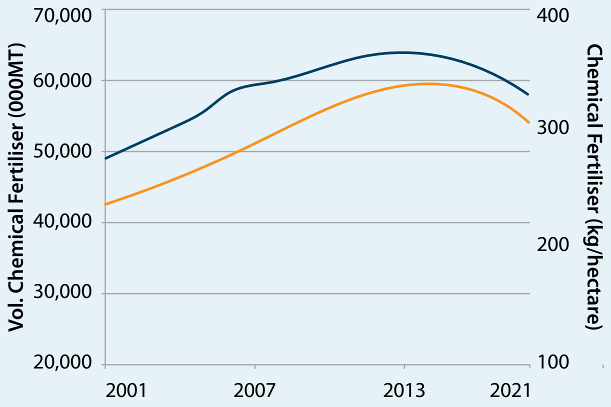
In thousand tonnes & kg/hectare



Pesticide Use (RH axis)
Total Use of Agricultural Pesticide

CHEMICAL FERTILISER USAGE CHINA

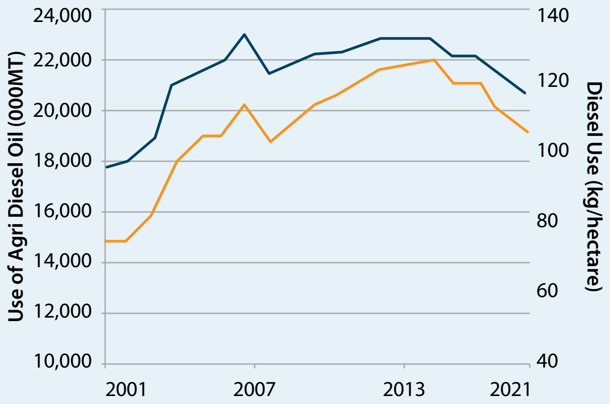
In thousand tonnes & kg/hectare



Chemical Fertiliser Use (RH axis)
Vol. of Effective Component of Chemical Fertiliser

AG DIESEL USAGE CHINA

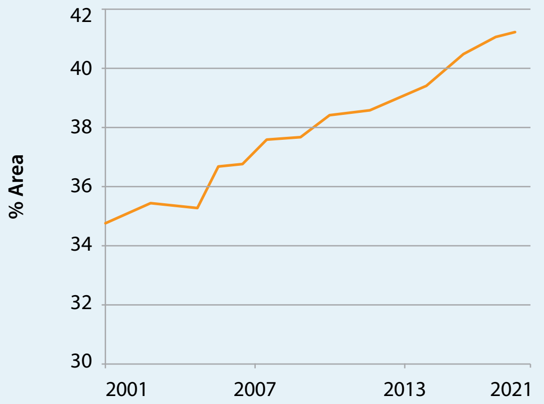
In thousand tonnes & kg/hectare



Diesel Use (RH axis)
Total Use of Agri Diesel Oil

SOWN AREA IRRIGATED

% Area



Source: China's 14th five-year plan and the impact on global agri food supply chains; ANZ/ The Economist webinar; July 2021

CONCLUSION

While the pandemic represents an outsized if short-term factor, secular forces like geopolitics and technological advances, and the opposing trends of globalisation and growing nationalism, will continue to shape global supply chains over the long term.

Given the risks these trends pose to the global business cycle, companies will need to hone their abilities in assessing and mitigating risk, improving cash flows, and optimising working capital management. They will also need to acquire better forecasting capabilities, diversify their sourcing and operational models and plan for contingencies better as they aim to build resilience into their businesses and supply chains during and in the wake of the pandemic. The urgency of these actions cannot be overstated as each new wave of the shape-shifting coronavirus continues to isolate the global workforce, place greater strain upon supply chains and undermine the global economy.

The future of supply chains will also be dictated by the expanding conversation about managing not only climate risk but also other considerations around sustainability, such as natural capital, biodiversity, packaging and social impacts. Companies will need to build due diligence mechanisms to assess and manage these issues and strengthen their sustainability strategies with the help of technology in recognition of the need to adapt to rapid and constant change, and the long-term benefits of such an approach.

Besides improving environmental and social outcomes, developing and operating a sustainable supply chain strategy will help improve investor and consumer perceptions, manage costs and drive innovation, as well as build a resilient supply chain that leads to long-term financial viability.

Through all this, companies will increasingly turn to their banks for advice and practical assistance. This will present lenders with a significant opportunity, along with a fiduciary responsibility, to be an effective partner and harness their considerable regional and global expertise to help clients successfully navigate a dynamic business environment. By doing so, banks can play an active role in the global effort to build a better world.

As Tonkin says: "The financial markets have a very big responsibility in directing the flow of capital appropriately. The pandemic has really provided the momentum we need to promote sustainable development. And the world must build on this."

Ultimately, the world requires renewed optimism and confidence – in people, communities and markets – to recover from the pandemic and build a more sustainable, equitable future for all. Aiding the creation of a resilient and transparent global supply chain will be an integral part of this effort.

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SUSAN KILSBY
Agricultural Economist

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FOOTNOTES

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