

Global Supply Chains - Networks of Tomorrow

Mainland China in focus



HSBC

Opening up a world of opportunity

Introduction

For the last three years HSBC has examined how corporate treasurers and senior managers are reshaping their supply chain and working capital strategies in response to global economic changes, sustainability policies and digital enhancements.

This year, we've expanded the scope from just Asia Pacific to include globally strategic markets – Germany, the United Kingdom (UK), United States of America (US), United Arab Emirates (UAE), and Mexico. We spoke to 787 corporate treasurers and senior managers across 14 markets from large multinationals to local organisations, online and traditional retailers, and both HSBC customers and non-customers.

Here we look at the local, regional and global responses in context, discovering viewpoints on future supply chains, the needs of companies and their treasuries today, and how the right banking solutions can help.

The view from mainland China

With the pandemic receding, China's economy has once again emerged with strong resilience, underpinned by faster-than-expected consumption and labour market recovery.

Strengthening supply chain resilience is nevertheless imperative to businesses of all sizes, who are mostly concerned about counterparty risks while aspiring to expand to new markets. Notably, about 42% of the surveyed corporates in mainland China plan to keep or increase the number of supply chain partners, much higher than the Asia and global averages of 34% and 36% respectively. Their top strategic priorities around digitisation and sustainability also remain important.



Corporates in mainland China have been deploying strategies to combat uncertainties. With the market rebounding strongly and confidence levels picking up, we are seeing the growing ambitions of corporates in expanding to new markets and re-connecting with the world with even more trade partners. HSBC is thus well positioned to support clients in their exciting and resilient business endeavours.”

Eric Yuan, Head of Global Trade and Receivables Finance, China, HSBC

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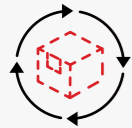
How corporates are laying the foundations for future supply chains

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How do corporates in mainland China differ from other markets?

Shifting supply chain strategies

Organisations in mainland China have maintained excess levels of inventory to ensure business continuity during the recent uncertainty in the trade environment, primarily due to Covid restrictions and rising freight rates. Macro factors such as counterparty risk and the desire to expand to new trade corridors are driving strategic changes in their supply chain management.



Top three macro factors driving change in supply chains

1. Counterparty risk
2. Expanding to new markets/trade corridors
3. Regulations and border restrictions



Top supplier locations for mainland China's corporates

1. Asia (excluding China) (28%) (+4pp)*
2. Mainland China (25%) (-5pp)*
3. North America (25%) (-1pp)*

*vs 2021

Important factors for assessing suppliers¹

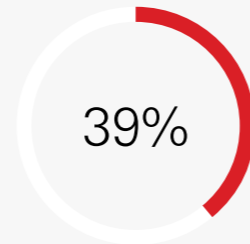
Payment and financing terms **54%**

Digital integration with treasury **26%**

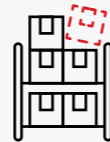
Sustainability credentials **18%**

Inventory management

85% of corporates in mainland China are holding excess inventory



average inventory holdings above normal levels



Top reasons for holding excess inventory

1. Covid-19 restrictions (72%)
2. Freight rates (63%)
3. Preparing for future disruptions (24%)

The challenges around rapidly shifting trade conditions have driven the need for excess inventory. In response to these factors, organisations in mainland China are also assessing suppliers in areas such as payment and financing terms as well as regarding their ability to integrate seamlessly with digital platforms.



South East Asia markets have become a lot more important in our supply arrangements relative to the US and Europe – closer, quicker, similar pricing and increasingly reliable.”

Chief Financial Officer, Mainland China Technology Manufacturer

¹ These factors are outside product quality and cost, which remain as the top areas of assessment

From August to October 2022, we commissioned East and Partners to directly interview 787 corporate treasurers and senior managers across 14 markets, including 68 in mainland China, to find out how they are reshaping their supply chains. Respondents could select multiple answers for some questions.

Navigating new market conditions

In mainland China, organisations are facing several major risk areas, currency and inflation being the top concerns in the current environment. A majority of local organisations are reducing their supply chain partners, although almost one-third are increasing their number of suppliers to meet their needs.

Risk management solutions



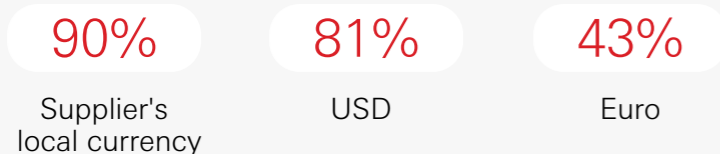
Top solutions for hedging against financial risk

1. Forwards for hedging FX risk (72%)
2. Interest rate swaps for interest rate risk (40%)
3. Natural currency hedging (24%)

Supply chain costs of greatest concern



Top currencies used to pay suppliers



Financing the supply chain



Preferred funding programmes

1. Traditional trade finance² (72%)
2. Available working capital³ (53%)
3. Inventory financing (50%)



Changes in supply chain partners

1. Increasing number of supply chain partners (32%) (-4pp)*
2. Reducing number of supply chain partners (57%) (+7pp)*
3. Keeping the same number of supply chain partners (10%) (-4pp)*

*vs 2021

Forwards and interest rate swaps are being used prominently to hedge FX and interest rate risk respectively. While the majority of respondents prefer to use traditional trade financing to fund their supply chains, half of them are using inventory financing, reflecting a need to keep cash flow steady and be ready to respond to disruptions.

Channels for supplier payments



Most popular payment methods

1. Purchase order (supplier portal) (47%)
2. Electronic bank transfer (32%)
3. Bank documents (manual instructions) (12%)

We've realigned a lot of our procurement to more onshore sourcing as a way of stabilising delivery times and reducing some of our foreign currency risk management."

Treasurer, China Light Manufacturer

² Traditional trade finance includes documentary credit/collections, open account and trade loans

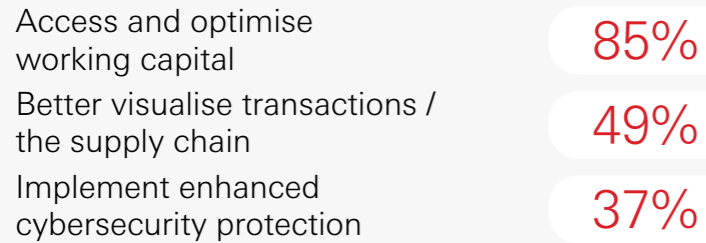
³ Available working capital includes the organisation's own cash, marketable securities and optimisation of receivables/payables terms

Ensuring supply chain resilience

Mainland Chinese corporates are investing in sustainable supply chains across a number of key areas, including energy efficiency and environment friendly plants and machinery. Work is also being done to align suppliers to sustainability goals and a variety of means are being explored for this purpose.

Digitising the supply chain

Top digital priorities banks can support with



To fund their supply chains, the vast majority of local corporates are looking for digital solutions to help them access and optimise working capital.



Our current focus is on realigning the business both internally and with our external supply partners. Our margins were hit very badly in 2021 and we're just recovering; sustainability for us is not the top priority today, maybe tomorrow."

Group Treasurer, China Manufacturing Group

Integrating sustainability along the supply chain

Around a quarter of organisations in mainland China have environmental and social policies in place, with more preparing to implement measures in the coming years.



Environmental / green policy implementation

1. Already in place (25%)
2. Will be in place within two years (28%)



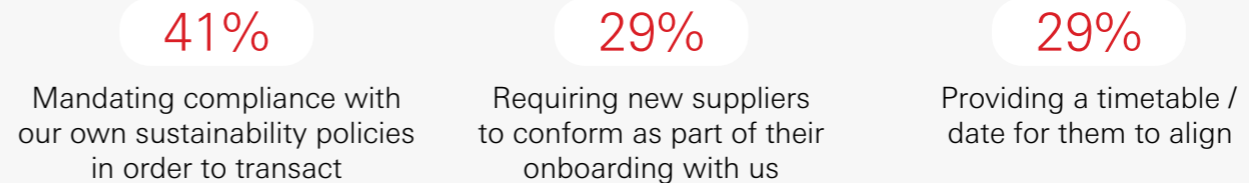
Health and safety / wellbeing policy implementation

1. Already in place (22%)
2. Will be in place within two years (25%)

Top focus areas for corporates in mainland China planning to invest in sustainable supply chains



Top methods for encouraging suppliers to adopt sustainability policies

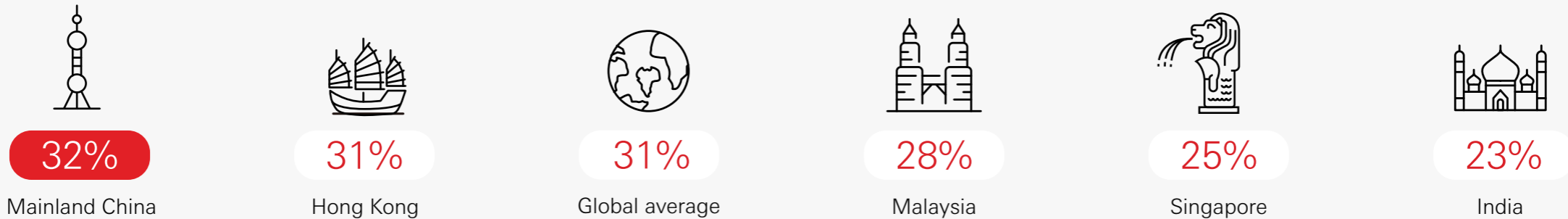


Highlighting market differences

Organisations in mainland China differ from their global peers in several key areas, including the number of businesses increasing their supply chain partners and in the use of natural currency hedging.

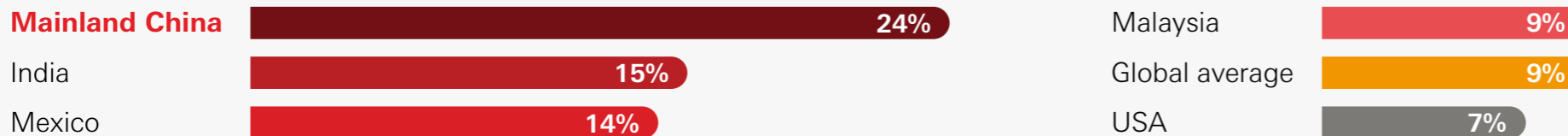
Increasing supply chain partner counts

Among regional peers, mainland China has the highest percentage of respondents that are looking to increase the number of supply chain partners.



Hedging using natural currency

Corporates in mainland China were the most involved globally in using natural currency hedging



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