

# Global Supply Chains - Networks of Tomorrow

Hong Kong in focus



Research report summary



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, United States of America, 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 Hong Kong

Businesses in Hong Kong have remained resilient amidst an uncertain trade environment over the past few years, driven by the lingering impact of the pandemic, geopolitical tensions, and recent inflationary pressures. Digital capabilities stand out as key tools for adapting to these conditions, with businesses from the city adopting them for improved supply chain visualisation and optimising their working capital. Looking ahead, with the reopening of the border with mainland China and the loosening of local Covid-19 restrictions, Hong Kong businesses are well positioned to capture the growth opportunities arising from these developments and future-proof their supply chains.



We are seeing increased demand from clients for simplified trade financing solutions to enable them to easily track and manage their supply chains. Through our comprehensive set of digital trade solutions, we aim to ensure they have all the tools to streamline their businesses with faster access to financing and better visibility and control over transactions.”

**Aditya Gahlaut, Managing Director and Co-Head of Global Trade and Receivables Finance, Asia Pacific, HSBC**

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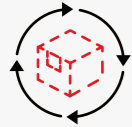
How corporates are laying the foundations for future supply chains

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How do corporates in Hong Kong differ from other markets?

# Shifting supply chain strategies

Organisations in Hong Kong have been holding higher levels of excess inventory in recent years in an effort to navigate the impact of pandemic restrictions and the associated increase in freight rates. With the loosening of Covid restrictions, the focus is increasingly shifting to realigning supply chains and expanding to new markets and trade corridors.



## Top three macro factors driving change in supply chains

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



## Top supplier locations for Hong Kong's corporates

1. Asia (excluding China) (29%) (+5pp)\*
2. Mainland China (28%) (-2pp)\*
3. North America (21%) (-2pp)\*

\*vs 2021

## Important factors for assessing suppliers<sup>1</sup>

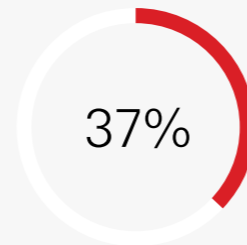
Payment and financing terms **48%**

Digital integration with treasury **30%**

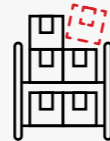
Sustainability credentials **27%**

## Inventory management

82% of Hong Kong's corporates are holding excess inventory



average inventory holdings above normal levels



## Top reasons for holding excess inventory

1. Covid restrictions (66%)
2. Freight rates (61%)
3. Preparing for future disruptions (28%)



Our Board instituted a group-wide review of our supply chain management practices in late 2021 which has resulted in significant efficiency gains, especially in the level of inventory we are now holding.”

**Treasurer, Hong Kong Trading Company**

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

# Navigating new market conditions

Hong Kong organisations are responding to a variety of pressures on their supply chains. Risk management is a key area with currency and inflation exposure top of mind, while traditional trade finance remains the go-to for supply chain financing. Supplier counts are also changing, with a majority continuing to rationalise their number of partners to simplify their trade networks and build supply chain resilience.

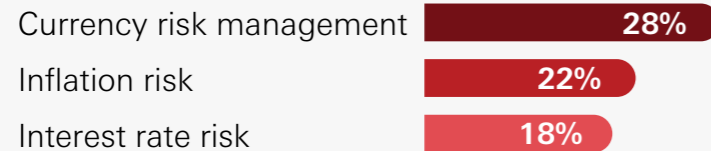
## Risk management solutions



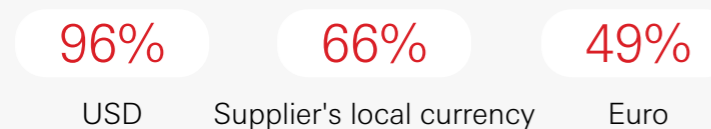
### Top solutions for hedging against financial risk

1. Forwards for hedging FX risk (90%)
2. Interest rate swaps for interest rate risk (81%)
3. Options for hedging FX risk (13%)

## Supply chain costs of greatest concern



## Top currencies used to pay suppliers

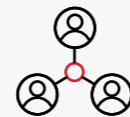


## Financing the supply chain



### Preferred funding programmes

1. Traditional trade finance<sup>2</sup> (81%)
2. Available working capital<sup>3</sup> (60%)
3. Inventory financing (46%)



### Changes in supply chain partners

1. Increasing number of supply chain partners (31%)
2. Reducing number of supply chain partners (61%)
3. Keeping the same number of supply chain partners (8%)

## Channels for supplier payments



### Most popular payment methods

1. Purchase order (supplier portal) (45%)
2. Electronic bank transfer (25%)
3. Advance batch payment (10%)

Supplier management is evolving with 66% of corporates in Hong Kong willing to pay in their supplier's local currency, reflecting a need for effective FX solutions to accommodate this. Additionally, although most corporates are reducing their supply chain partners, a significant minority are increasing them representing a 6pp jump from 2021.

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

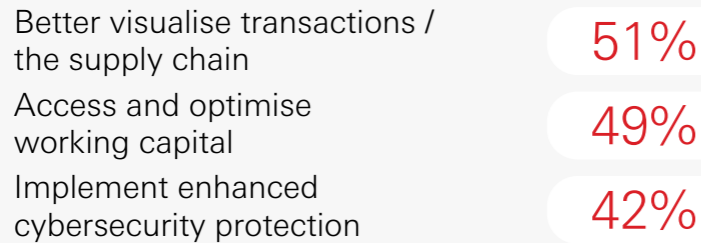
<sup>3</sup> Available working capital includes the organisation's own cash, marketable securities and optimisation of receivables/payables terms

# Ensuring supply chain resilience

The global trade environment has gone through a period of uncertainty in recent years, which has made supply chain resilience a key strategic objective. For Hong Kong organisations, increasing supply chain efficiency and security through digitisation and pursuing alignment with suppliers on sustainability goals are key to achieving this.

## Digitising the supply chain

### Top digital priorities banks can support with



To increase adaptability, corporates in Hong Kong are adopting digital solutions to increase visibility across their supply chains and optimise their working capital.

At the moment we can only track and trace transaction by transaction and have no analytics across all of them. Knowing things like average days to delivery by region of source would be incredibly helpful.”

**Treasurer, Hong Kong, Importer / Distributor**

## Integrating sustainability along the supply chain

Policies to implement sustainable practices are well underway, with a growing proportion of Hong Kong corporates having already made significant progress in this area.



### Environmental / green policy implementation

1. Already in place (45%)
2. Will be in place within two years (34%)



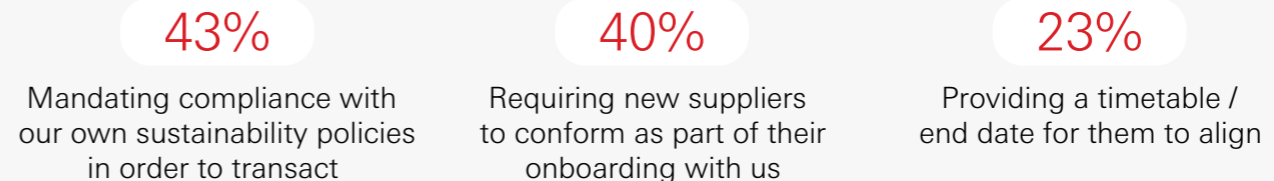
### Health and safety / wellbeing policy implementation

1. Already in place (40%)
2. Will be in place within two years (46%)

## Top focus areas for corporates in Hong Kong planning to invest in sustainable supply chains



## Top methods for encouraging suppliers to adopt sustainability policies

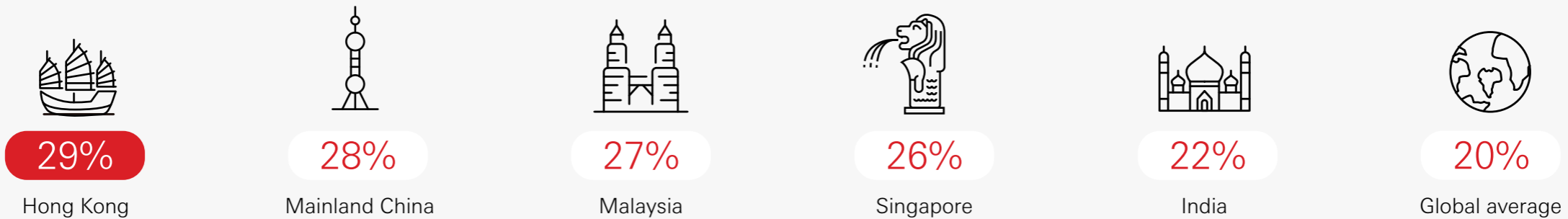


# Highlighting market differences

Hong Kong organisations have stood out among their global peers in key areas, reflecting their priorities and differentiators. Two of the biggest include Asia (excluding China) as their top supplier location and their average days to supplier payment, the latter reflecting healthy financials for meeting their partner obligations.

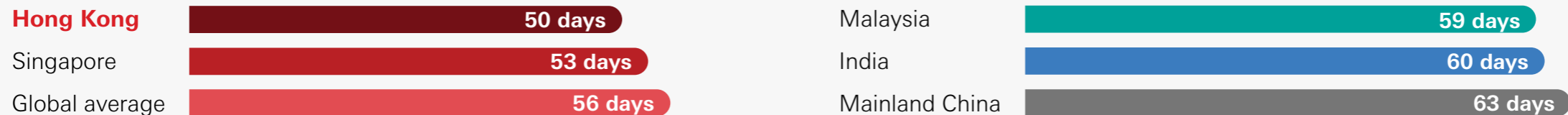
## Asia (excluding China) as a top supplier location

Among all markets, Hong Kong had the most corporates citing Asia (excluding China) as their top supplier location over the next 12-24 months.



## Average days to supplier payment

Corporates in Hong Kong lead their Asian peers in the average number of days they take to settle their supplier payments.



# Disclaimer

From August to October 2022, we commissioned East and Partners to directly interview 787 corporate treasurers and senior managers across 14 markets, including 67 in Hong Kong, to find out how they are managing their supply chains. Respondents could select multiple answers for some questions.

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