



Companies look to shift supply chain to Southeast Asia Q&A with Dann Sim

In his role as head of the Commercial Subsidiaries Group in Singapore, Citi Commercial Bank Senior Vice President Dann Sim works with companies establishing a presence in Singapore, either to access the domestic market or serve as an ASEAN hub. Here he explains the evolution of clients' supply chains.



Dann Sim
Citi Commercial Bank
Senior Vice President

Q How are clients' supply chains changing - and why?

A We have multiple touch points and interactions with clients and get consistent feedback that companies are increasingly pivoting some of their business operation activities to Southeast Asia. The immediate driver for this is, of course, the US-China trade war. China has always been the 'world's factory' but increased tariffs put its goods in a disadvantageous position. That's prompting China-based firms to reassess their supply chain strategy and search for new markets.

This also applies to local companies in China, many of which have become sophisticated and sizable. While their core manufacturing capabilities remain in their home country, they recognize that by being in only one country they lack the flexibility to adapt to geopolitical risks. So now they're exploring secondary manufacturing locations such as in Vietnam, Indonesia, Thailand and Malaysia to diversify their risk and exposure.

Q What are the longer-term factors prompting the growth of manufacturing in Southeast Asia?

A In the past, when US, European and Japanese companies reached a certain scale and became global, they sought ways to diversify risk; the same is now happening for Asian companies. They don't want to have all their manufacturing capability concentrated in one country because it is not a prudent way to manage a business. For companies from any location, there has always been this need to diversify a company's manufacturing base at some stage.

Q + a

What is Supply Chain?

When we talk about supply chain we mean all the steps a company uses to create and deliver a product, or service, to their customer. Supply chain activities involve the transformation of natural resources, raw materials, and components or semi-finished goods into a finished product that is delivered to the end customer. In this article I've been referring mostly to the location where a customer produces their product and/or services. Companies actively manage their supply chains so they can reduce costs and remain competitive.

In the case of China, there are other factors at work. The cost of manufacturing - labor and production costs - has risen steadily over the past decade. As China moves up the value chain, many industries may find it may no longer be the cheapest or most cost-effective place to manufacture. The same product may now be produced at a lower cost in places like Vietnam and Indonesia. And Cambodia and Laos are on the horizon as alternative locations with even lower costs.

Q How extensive is this supply chain shift among mid-sized and emerging corporations?

A Last year, Citi Commercial Bank held a series of ASEAN-themed seminars in Asia to educate clients about the region and highlight the characteristics and strengths of each member country for businesses. The clients who attended were very engaged and we have seen a heightened level of interest in attending these sessions; a growing number of clients are planning to expand into select ASEAN countries. Their country of choice depends on the industry, which range from electronic device and component manufacturers to garment and textile companies to manufacturers of renewable energy-related components such as solar modules.

Interestingly, Taiwan has developed the New Southbound policy, which is encouraging Taiwanese companies to establish a presence in Southeast Asia. In the past, Taiwanese expansion to Southeast Asia was on a limited scale. We expect that to change going forward. With the emergence of Vietnam as a viable manufacturing base and Indonesia increasingly opening up, ASEAN has the infrastructure to encourage Taiwanese, as well as Chinese and Korean companies, to shift parts of their production bases to Vietnam, Indonesia and Malaysia.

Q Are companies also shifting treasury and financing operations?

A Yes. In Singapore we see the indirect effect of these supply chain shifts. Once companies move to places like Vietnam, Indonesia or Thailand, they often need a regional treasury in this part of the world. Singapore and Hong Kong are the most common choices. Often, these hubs take on the role of regional treasury and invoicing centers, providing funding and regional cash management services.

Q What should clients consider if they are moving out of China?

A To be clear, our customers are not abandoning manufacturing in China; it will continue to be a very significant part of their overall manufacturing capability. The change underway is really about having an alternative or secondary option to China. It is unlikely companies will move all of their operations out of China and go to another country. There is still no other country, right now at least, that can replace China as an optimal location for large scale manufacturing because of its population base and demographics. Down the road, maybe Indonesia or India could step in to partially, if not significantly, replace China's ability to produce. But in the foreseeable future, I don't see this happening. What I think we will see is companies, even Chinese companies, actively looking outside China to find alternatives sources for pieces of their supply chain to diversify concentration risk and minimize disruption to their business.

Q How can Citi help companies with their evolving supply chains?

A Citi's truly global network and presence in more than 100 countries enables us to understand each country and offer clients the benefit of our local subject matter expertise. We can give them the customized solutions and localized knowledge, including sector specific insights, they need in order to expand internationally. And we host events to provide networking opportunities with local partners including law and audit firms. Finally, needless to say, Citi can provide a customizable and globally integrated online banking platform, as well as appropriate banking products and services to meet client's banking and financing needs locally.