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Trade war forcing 93 per cent of Chinese companies to transform supply chains, survey shows

In a bid to avoid Donald Trump's tariffs, companies from Australia, China, Hong Kong, India, Japan, Malaysia, and Singapore are considering making changes

Poll conducted by the law firm Baker McKenzie surveyed 600 multinational companies around Asia-Pacific, including 150 companies in China

Topic | US-China trade war

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A vast majority of companies in China are being forced to reconsider their supply chain and production functions due to the trade war with the United States, a new survey has found.

In a poll conducted by the law firm Baker McKenzie, 93 per cent of Chinese companies were considering making some change to their supply chains to mitigate the effects of trade tariffs.

Of these, 18 per cent were considering a complete supply chain and production transformation, with 58 per cent making major changes. A further 17 per cent were making small changes in response to the trade war, with just 7 per cent making no changes at all.

The survey helps put a figure on a trend which has been well-reported, that companies are reconsidering their Chinese manufacturing bases to avoid the tariffs placed on US$250 billion of Chinese exports by US President Donald Trump.

In some cases, this might mean the closure of a factory in China, with production transplanted to another country, often in Southeast Asia, with Cambodia, Indonesia, Malaysia and Vietnam proving popular destinations for new production facilities.

However in other cases, it can involve a reallocation of production, where the manufacture of goods bound for the US moves to a country not affected by tariffs. The Chinese plant can then be redesignated to produce goods bound for countries that do not place tariffs on Chinese-made goods.

"Many companies are still looking at moving the location of specific manufacturing steps that affect the country of origin of an article. If possible, companies often try to do this within their existing global manufacturing footprint, but some are entering into relationships with new suppliers or are breaking ground on new facilities," said Jon Cowley, senior international trade partner at Baker McKenzie in Hong Kong.

With the trade war now in its 11th month, experts said that many companies have gone beyond the point of considering whether to shift production, and are now in the process of executing their plans.

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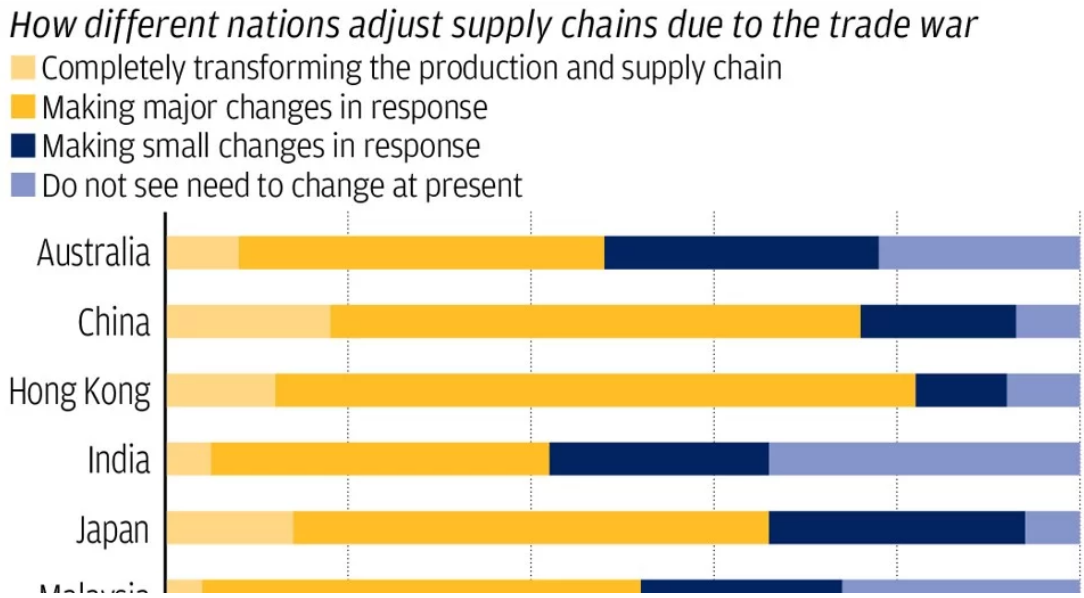
Jon Cowley, Baker McKenzie

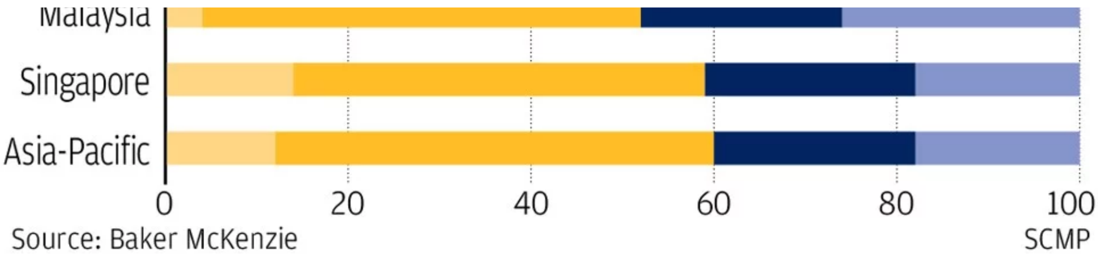
"We have gone past the observation stage and are now putting things into action," said Angelia Chew, the managing partner at the Singapore-based AC Trade Advisory. "Everyone is realising now that they have to be flexible in their supply chain and able to react to change. Because it could be India tomorrow [affected by tariffs], it could be China again, it could be another country."

The survey also makes clear that the trend is not limited to companies of any given nationality. Baker McKenzie polled 600 multinational companies around Asia-Pacific, namely Australia, China, Hong Kong, India, Japan, Malaysia, and Singapore, of which 150 of the firms were based in China.

Region-wide, 82 per cent of respondents are changing their supply chains to counter the trade war. Perhaps surprisingly, the biggest portion of respondents making changes, by nationality, were Japanese, with 94 per cent of companies polled making changes to their operations.

An unnamed chief risk and compliance officer at a Japanese consumer goods company, who was interviewed by the researchers, said that "the trade war is causing delays in our supply chain that is affecting the quality of our products, and we are incurring additional losses in our logistics".





A chart showing how different nations have adjusted their supply chain due to the US-China trade war.

Of the Hong Kong companies surveyed, 92 per cent have been forced to consider changes, compared to 82 per cent of Singaporean companies and 78 per cent of Australian firms.

Chew, the Singapore-based consultant, said that the US-China trade war has forced a change in attitude towards supply chain issues, which were previously considered to be peripheral concerns.

"In the past, big companies looked at the supply chain and logistics functions as a cost, it was a lot simpler. Supply chain was about keeping costs down, considering where is the cheapest product to be made, but nowadays they are looking at it differently," she said, adding that her firm has been fielding more enquiries from "second-tier" companies, which previously would not have considered more than one manufacturing base.

Foreign direct investment in Vietnam's manufacturing sector, driven by electronics manufacturing, has risen to 11 per cent a year over the past five years, and it has been a key driver of Vietnam's export growth, according to data from Oxford Economics.

> **Southeast Asia tends to be, on average, 10 years or more behind China in terms of infrastructure, logistics capacity and we also see these challenges extend to labour quality and manufacturing capacity.**
> **Maxfield Brown**

However, other analysts warned that while companies are certainly keen to avoid the impact of the US-China trade, their expectations should be managed as there is no country that can compete with China on manufacturing, when cost, infrastructure, quality and service are all considered.

"Southeast Asia tends to be, on average, 10 years or more behind China in terms of infrastructure, logistics capacity and we also see these challenges extend to labour quality and manufacturing capacity," said Maxfield Brown, a business intelligence manager in management consultancy Dezan Shira & Associates' Ho Chi Minh City office.

'The reality is that China is a diamond in the rough, the opportunities that became available in the last 20 years in China are unparalleled, it is unlikely that manufacturers outside China are going to be able to replicate that in the future."

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