

# Trade is in transition – here's how we can harness that for growth in Asia Pacific



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**As geopolitical and economic factors persist, including tensions between the US and China and relatively high interest rates, there are many reasons for caution.**

Glen Hilton, CEO & MD, DP World Asia Pacific | Jan 18, 2024

Yet, in uncertain times, one thing we can be sure of is global trade will adapt and evolve. Indeed, this week's World Economic Forum Annual Meeting in Davos is exploring [how to achieve security and cooperation in a fragmented world](#), a theme already in train in businesses across Asia Pacific (APAC).

Our annual [Trade In Transition](#) report – commissioned by DP World and led by Economist Impact – finds business leaders in the APAC region are diversifying their supplier base to make their supply chains more resilient and ensure stability. This means the region is ready for growth, with Asia's imports and exports both [predicted to grow more than 5% this year](#).

So, what are APAC's leaders doing already, and how can businesses prepare to capitalise on this potential trade growth?

## **Diversification v. consolidation**

With global macroeconomic forces reconfiguring the trading system and supply chains, businesses are having to consider a critical dichotomy: diversification versus consolidation.

Our survey results indicate a sustained belief in diversification when reconfiguring supply chains, with 44% of executives globally diversifying their supplier base.

But that shift is taking several different forms. In response to geopolitical events, 36% of the global business leaders we surveyed say they are prioritising friendshoring, while 32% are creating dual supply chains, including what we are calling a 'China +1' strategy.

This is particularly the case in APAC. Our data shows that 47% of executives in the region are diversifying their firm's supplier base to insulate it from trade tensions between the US and China. This is seeing firms either create parallel supply chains or expand into more politically neutral markets.

Countries like Indonesia, Malaysia, Vietnam and Thailand are already benefitting from this approach. For example, Intel is building its largest 3D-chip packaging plant in Malaysia and Apple is diversifying its supply chain from China by manufacturing some of its products in Vietnam.

That said, we have also seen a significant shift in consolidation as 26% of companies are opting to work with fewer suppliers – an increase of 16 percentage points from 12 months ago.

## **From just-in-time to just-right**

Another trade development we have seen in recent years is the evolution from just-in-time supply chains. In 2023, for example, our report found that only 12% of businesses prioritised this model.

Across APAC and globally, businesses are turning to 'just-right' stockpiling instead of the favoured just-in-case model – ensuring sufficient stock to buffer volatility while avoiding excessive inventories.

This is because maintaining ample inventories has become particularly expensive due to high inflation rates. Our analysis of 52 markets finds that total costs for prime warehousing – comprising rents, service charges and taxes – grew 10.1% in the 12 months to June 2023.

## **Transformative technology**

That said, effectively addressing inventory distortion could result in a sales increase of up to 10.3%, our survey results show. And this is one area in which I believe technology can have a significant impact.

Artificial intelligence (AI) has a crucial role to play in optimising inventories. To reduce overall trade and supply chain costs, 34% of executives chose leveraging digital tools to streamline inventory management as their top priority.

And frontier technologies like AI and blockchain are positively transforming every link in the supply chain. Just 27% of business leaders we surveyed had used AI, big data and predictive analytics for real-time insights, but now 93% plan to do so by 2024, underscoring the opportunity.

I expect nothing less than an entrepreneurial approach from the dynamic businesses across APAC. Ingenuity coupled with flexibility and resilience means they are building on solid foundations.

But as recent years have shown, logistics processes are always having to evolve. Conversations in Davos this week are looking at how to ensure the strength of our global supply chains. I believe our report's insights will contribute to this, ensuring local and international trade continues to thrive.

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