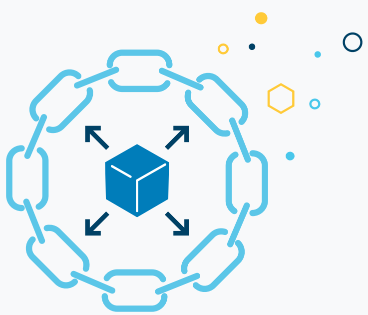
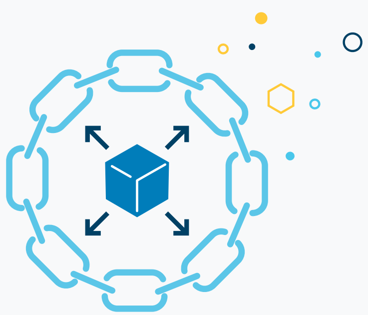
ANZ INSTITUTIONAL

THE FUTURE OF THE GLOBAL SUPPLY CHAIN: MORE SUSTAINABLE, RESPONSIBLE AND RESILIENT

FEBRUARY 2024





FOREWORD

Global supply chains, the arteries of international trade, continue to be redefined by a wide range of secular trends.

With the pandemic in the rear-view mirror, technology has, from a corporate perspective, regained its rightful place as a unifier of these forces. And as this report will make clear, not only is technology a key driver of change, it's also an enabler of that change, influencing everything from geopolitics and the energy transition effort to the developing regulations governing supply chains.

Company treasury and procurement divisions continue to transform their operations digitally. These changes include replacing legacy payment systems with real-time alternatives, as well as deploying remote sensors and drones to support inventory management and delivery systems, improving transparency and supply chain resilience. Meanwhile, new agents of disruption have arisen, including generative artificial intelligence, or gen AI, and asset tokenisation.

The geopolitical headwinds impacting the global economy are another forceful factor redrawing long-established supply chains. Most recently, the Ukraine conflict, tensions in the Middle East and fraying US–China ties have triggered a fresh wave of policy making focused on economic security, forcing corporations to consider domestic or regional alternatives as they look to diversify their production centres and supplier hubs, and develop real-time visibility systems to track disruptions along their supply chains. This de-risking trend, which was in the making prior to the Covid-19 pandemic, is crystallising into a permanent feature of global trade.

At the same time, the global push to transition to net zero in response to a warming planet is bringing positive change to the supply chain. Heeding the voice of environmentally conscious consumers and investors, as well as responding to an evolving regulatory landscape (especially with respect to Scope 3 emissions, which track the emissions from a firm's suppliers and customers in making and using its products), many companies are taking action. They are undertaking the challenging task of tracking and reporting on emissions across their respective supply chains, investing in efforts to reduce emissions, finding opportunities for offsets, seeking to preserve the planet's biodiversity, and focusing on improving performance on a variety of other environmental, social and governance (ESG) metrics.

Linked to this, many banks and financial institutions are stepping up to the challenge of helping institutional clients manage these changes by offering a range of innovative products and solutions linked to sustainability. They are doing so by building in-house fintech proficiencies and establishing strategic relationships with providers of operational and technological expertise.

Fortuitously, the imperative to meet ESG metrics comes at the same time as the means to using technology to help drive a sustainable approach becomes widespread. Take carbon credits, for example, where ANZ has continued its push into the digital assets economy by enabling the tokenisation of carbon credits via blockchain technology. On the broader sustainability front, our various collaborations, including with working capital optimisation fintech, Taulia, illustrate how banks can assist clients in developing more resilient and sustainable supply chains. This involves facilitating the collection of ESG data for the purposes of certifying suppliers as ESG-compliant, in order to enable more efficient and cost-effective access to capital.[1]

What has become clear in recent years is that the advent of new technologies, combined with innovative products linked to sustainability, will be pivotal in helping fund the multi-trillion-dollar effort to reduce emissions, meet the UN Sustainable Development Goals (SDGs), and build crisis-resilient supply chains that can facilitate sustainable trade.

Additionally, as the Covid-19 pandemic showed, the biggest challenges can have unexpected effects: such as a rapidly increased rate of digitisation, which has had profound effects globally, including on supply chains. While digitisation is undoubtedly bringing new opportunities to address concerns about climate change, there is still much work to be done on this front.

The first edition of this report – published in February 2022, around the time the Covid-19 pandemic started its downward trend[2] – made a number of observations, including about the permanence of the pandemic's impact on the global economy as well as upcoming technological advances and geopolitical developments. This report assesses five key drivers currently reshaping the global supply chain and the trends to watch in the near- to medium-term. What is clear is that when it comes to building resilient and sustainable global supply chains there is much to be optimistic about.

TAMMY MEDARD
Managing Director, Institutional Australia, ANZ

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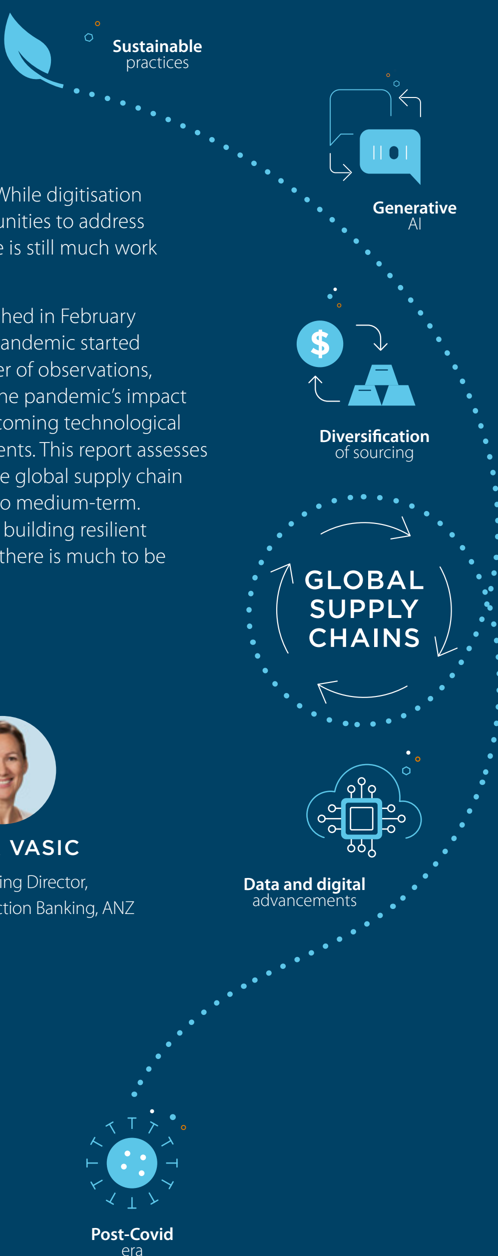
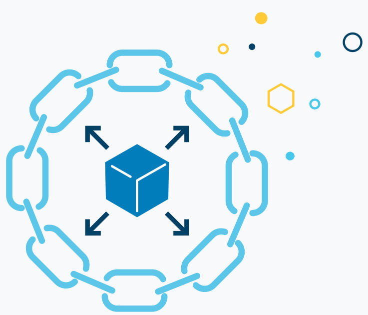
Managing Director, Transaction Banking, ANZ





INTRODUCTION

With the threat of Covid-19 easing, the initial strides made in resolving supply chain bottlenecks[3] and the relative normalisation of costs in global shipping[4] are yielding to persistent geopolitical challenges – now recognised as a significant risk and impediment to future growth.

That's because fresh challenges have emerged, chief among them the conflict in eastern Europe, which fuelled a rise in energy prices and created a shortage of essential commodities.[5] Simultaneously, the Middle East conflict has added to shipping costs and time, impacting companies' inventory strategies and global supply chains.

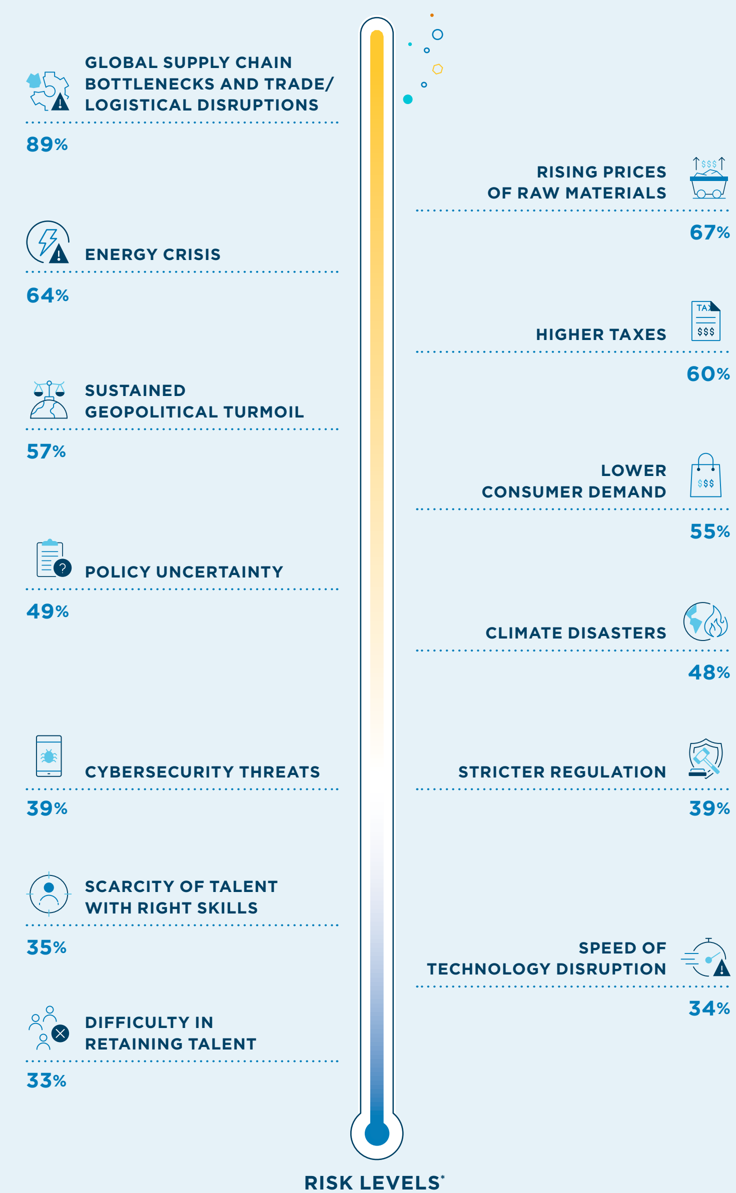
On the macroeconomic front, runaway inflation has forced policymakers to raise interest rates – contributing to subdued consumer demand and a global economic slowdown.[6] This means businesses are navigating not only supply-side constraints but also a slowdown in demand, alongside a litany of other challenges.

Subdued demand means some companies are rethinking their inventory management practices, while – from a supply chain perspective – geopolitical risks remain the most significant challenge. Aside from the conflict in Ukraine, continuing China–US tensions[7] may affect a range of sectors from agriculture to automobiles.

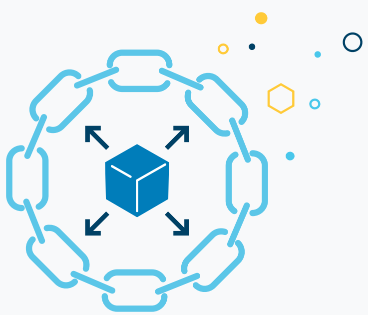
At the same time, there are reasons to feel hopeful about the future. Geopolitics is fuelling a quest for alternative supply chains, which is expected to benefit a number of emerging markets in Asia and beyond, driving growth and helping alleviate poverty. Additionally, rapid advances in technology (a key driver and an enabler of other drivers), an emerging framework of supporting regulations, and a raft of supply chain finance products and solutions promise to raise visibility and transparency across the supply chain to unprecedented levels and support a range of ESG goals, including the global push to net zero.

As a result, corporations worldwide are evolving to address these changes – from building redundancies into their supplier networks to embracing digital and financial tools to strengthen operational resilience to future crises and ensure long-term sustainable growth.

TOP RISKS TO BUSINESS GROWTH IN THE NEXT 12–18 MONTHS

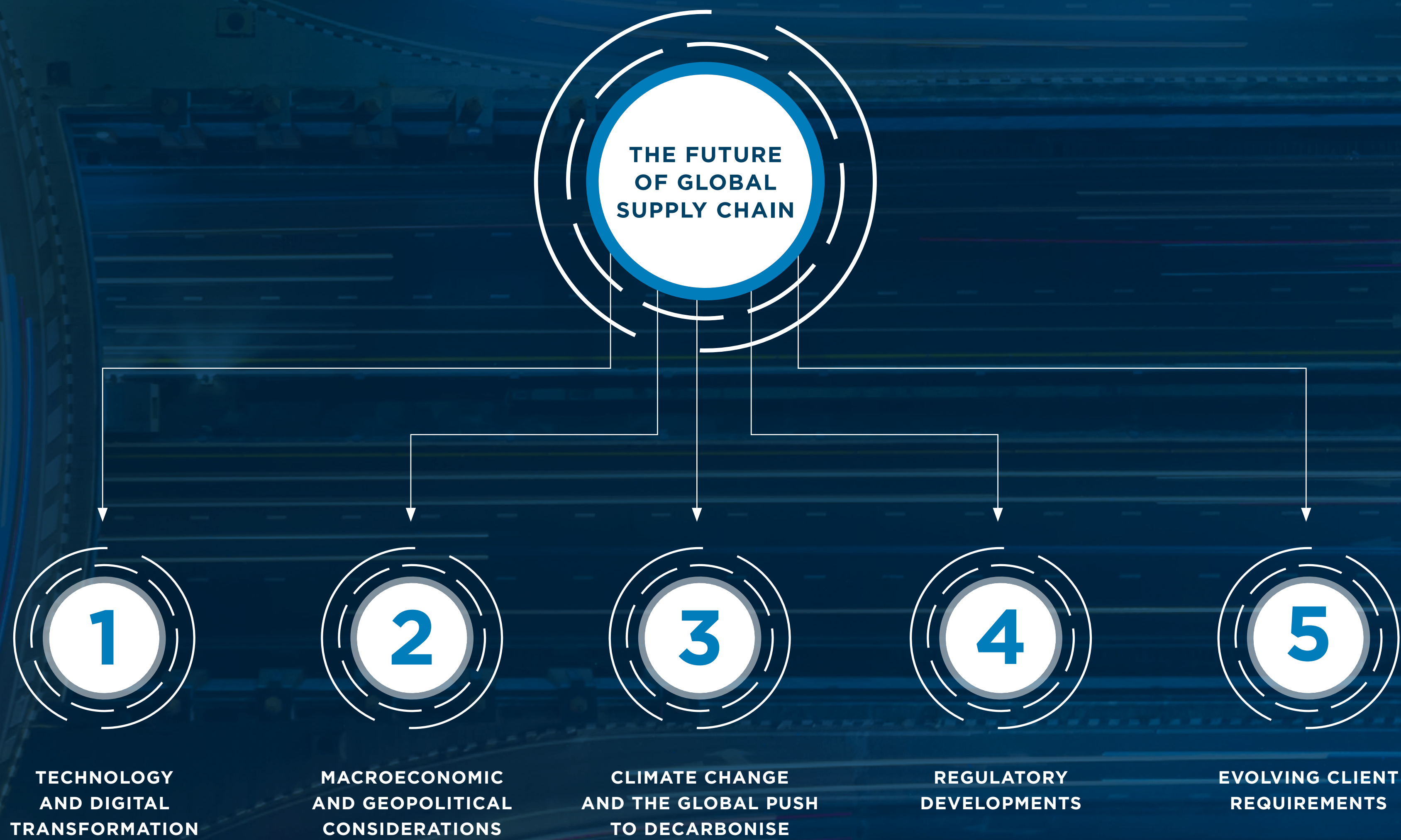


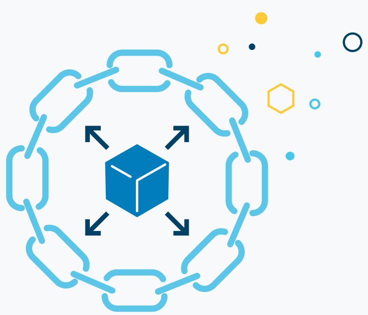
*According to 2,000 executives Capgemini surveyed across 15 countries.
Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations



FIVE KEY DRIVERS

TO A MORE SUSTAINABLE, RESPONSIBLE AND RESILIENT FUTURE GLOBAL SUPPLY CHAIN.





1. TECHNOLOGY AND DIGITAL TRANSFORMATION

The cliché that 'change is the only constant' describes the impact of technology on corporate activity.

Rapid advances in technology means that companies that have been busy in recent years harnessing the power of developments such as the Internet of Things (IoT), robotic process automation (RPA), and machine learning must now contend with the advent of even more transformative tools.

The first edition of this report looked at the potential impact on the global supply chain of cloud computing, 5G telecom and 3D-printing, among others. At this juncture, steady progress is being made in incorporating these technologies into global supply chain operations, according to Hari Janakiraman, Head of Industry and Innovation, ANZ.

While most companies have connected their discrete processes and systems residing on the cloud to enable real-time information-sharing by participants across the supply chain, many others are scaling up the deployment of IoT, including by using sensors to track the flow of materials through the supply chain with near-pinpoint accuracy.

Take-up of these technologies is being further boosted as their impact on the bottom line becomes clearer, with studies showing that digitised supply chains produce annualised savings of about 7% on operational costs. Indeed, most executives surveyed in a separate study cite optimising costs and driving growth as the top objectives fuelling their investments in supply chain technology.[8]

DISRUPTION REDEFINED

More disruption is around the corner. The emergence of gen AI tools like ChatGPT[9] has upended the thinking around what technology can help achieve.

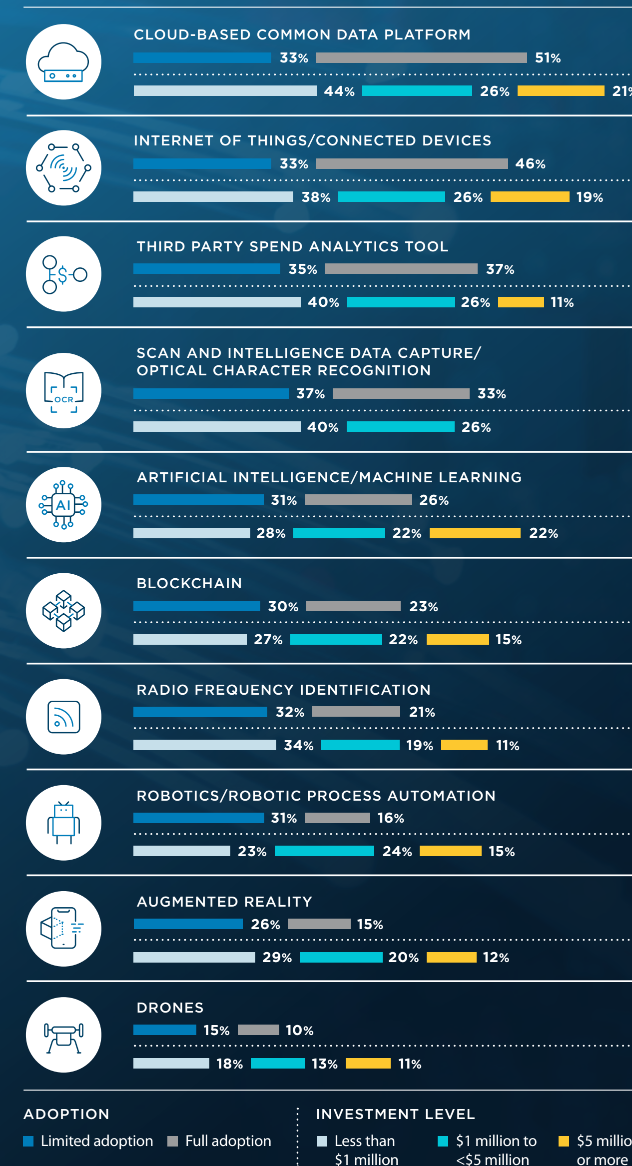
With the ability to crunch prodigious amounts of data and to learn as it goes, gen AI has the potential to illuminate the farthest corners of the global supply chain. This includes aiding the creation of more accurate demand–forecasting models, optimising inventory and distribution strategies,[10] and even providing companies with details about the financial health and emissions records of all their suppliers – a nearly impossible prospect until recently.

For example, Janakiraman says, "We have partnered with a fintech company that uses AI-driven language models to look at every published piece of documentation available in the public domain, understand what is in those documents, and then start mapping out customer supply chains."

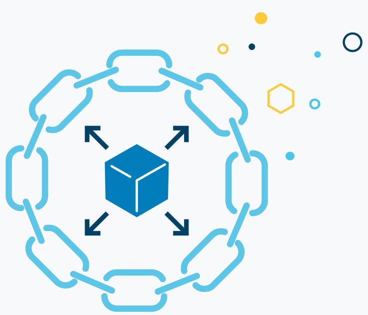
This allows ANZ's clients access to significant insights into the operations of their suppliers across multiple tiers, which can include hundreds of thousands of entities. Additionally, the information offered up by the AI tool is extremely comprehensive: ranging from basic information such as the geolocation of each supplier to details about their financial health and ESG scores. Access to such information can be invaluable, helping corporates mitigate various risks, including by identifying potential bottlenecks tied to geopolitical disruptions or in complying with a web of evolving regulations around emissions disclosures.

"No human has the capacity to read and digest the spider web of information on the internet, map those connections, and offer all of that up in a nice dashboard format. And do all of that in a matter of a week," Janakiraman says.

CURRENT AND FUTURE SUPPLY CHAIN TECHNOLOGIES SHAPING INVESTMENT TRENDS



Source: 2023 Digital Trends in Supply Chain Survey, PwC



With technology continuing to enable improvements up and down the value chain, banks like ANZ are increasingly using virtual 'sandbox' environments where they can engage with fintechs and other third-party providers to test new products and solutions, and bring them to market quickly and efficiently, and with low risk, says Erwan Cesbert, Head of Supply Chain Finance Sales, ASEAN+India, ANZ. "Because they are isolated from broader systems, sandboxes help test ideas, developments and programs without impacting the platforms on which they operate. Sandboxing will be transformative not only in transaction banking, but for the entire financial services industry," he says.

Another transformative technology poised to disrupt the world of supply chain management is the tokenisation of real-world assets, where the ownership of physical assets can be transferred to the blockchain, which offers a tamper-proof record of transactions. A growing number of financial institutions around the world, encouraged by supportive regulators, are examining ways to tokenise real-world assets to allow information to travel faster than before, enable instant settlements, and turn concepts such as atomic settlements into reality.

Indeed, tokenisation is already underway: ANZ worked with Grollo Carbon Ventures to successfully trade tokenised Australian Carbon Credit Units marking the completion of the bank's first use-case as part of a central bank digital currency pilot run by the Reserve Bank of Australia and the Digital Finance Cooperative Research Centre. The transaction – conducted on a public, permissionless blockchain – demonstrated the use of digital assets to reduce settlement time and help mitigate settlement-related counter-party risk.[11]

"As consensus builds around the various approaches to tokenisation, Ethereum standards for Fungible ERC 20/Non Fungible (ERC721) and combined ERC1155 are being explored for trade document digitisation, fractionalisation and securitisation of trade assets, creating an immutable record of assets as well as liquidity for trading these assets, while reducing friction and fraud through duplication," says Balaji Natarajan, Executive Director, Regional Sales, ANZ. "It is increasingly becoming more and more visible across the corporate world."

MOVE FAST AND COMMIT TO CHANGE

For companies to fully capitalise on the potential of these digital tools, senior management must lead all stakeholders in moving quickly and fully committing to the changes that technology will bring to legacy processes, Janakiraman says.

"Companies have to be open to updating and, in some cases, completely revamping their systems. That requires commitment to investment and change. And it has to start from the top with high-level buy-in," he says. "Because this technology is evolving so quickly, companies that can keep pace will be able to retain their edge over the competition for a considerable period of time."

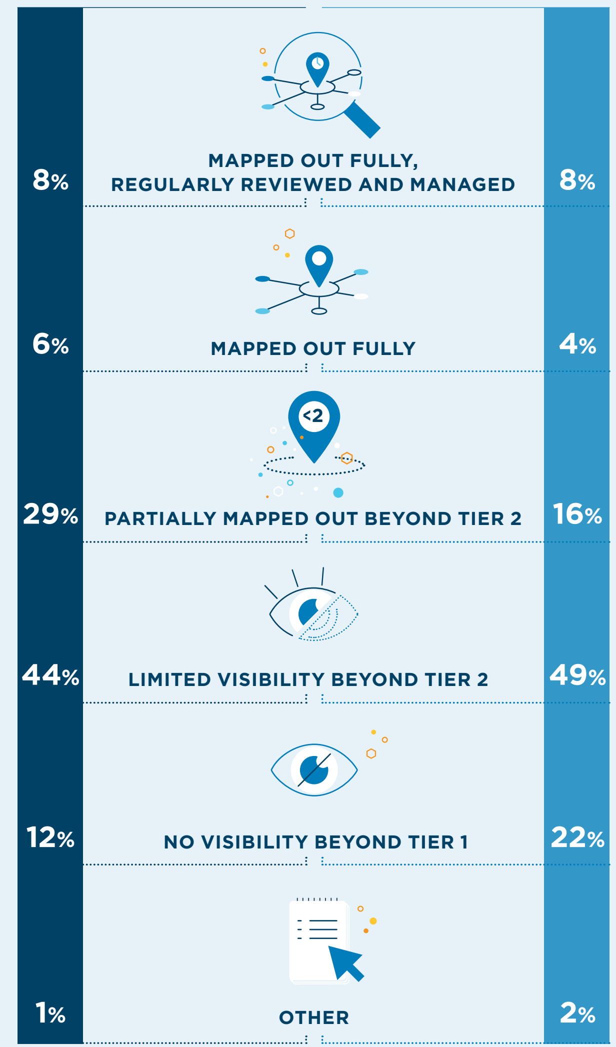
For fast movers, the returns can be substantial. Some estimates peg the efficiencies created by using gen AI to be upwards of 30%.[12] This makes it significantly challenging for late movers to catch up with rivals. At the same time, it's important to recognise that – given the complex and extensive nature of modern supply chains where a single company could be dealing directly or indirectly with hundreds of suppliers in different markets – not everyone will be at the cutting edge of digital transformation. It's the same with regulatory regimes, which will differ from country to country.

"So, strategically managing your supplier network and coping with a wide variety of regulatory frameworks while waiting for everyone to get on the same page is going to be the challenge," says Natarajan.

"Generative AI unleashes an opportunity to create an intelligent, data-driven supply chain, enabling visibility deep into supplier tiers and nexuses, as well as real-time ESG tracking. The ability to interrogate vast amounts of data will strongly enhance a company's understanding of current and future risks, uncovering hidden and seemingly unconnected disruptions, while providing options for businesses to best prepare for the unexpected."

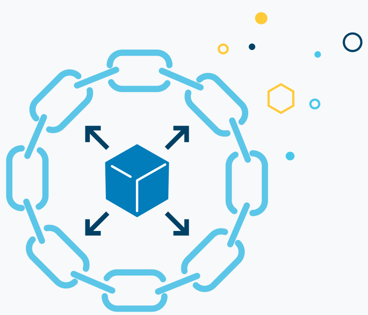
Hariramchakraborthy Janakiraman – Head of Industry and Innovation, Transaction Banking, ANZ

PRIVATE AND PUBLIC SECTOR SUPPLY CHAIN NETWORK VISIBILITY



TIER 1: Suppliers with which the organization conduct business with directly.
TIER 2: Sources from which Tier 1 suppliers obtain their goods and services.
MAPPED OUT FULLY: Encompassing Tier 1, Tier 2 and beyond.

Source: Page 17, Procurement and supply chain resilience in the face of global disruption: A survey by Deloitte in partnership with the Chartered Institute of Procurement & Supply, October 2022, Deloitte and CIPS



ANZ–TAULIA STRATEGIC RELATIONSHIP

Advancing Treasury Solutions, Strengthening Supply Chains.

As this report shows, economic and geopolitical headwinds are accelerating nearshoring and reshoring trends – even as technology is revolutionising global supply chains and trade finance. Inevitably, corporations and their treasuries must adapt to these changes to stay relevant and competitive.

As companies respond by investing in digital transformation to overhaul their capital and supplier management operations, the banks that serve them are evolving their offerings. From letters of credit and guarantees to invoice financing and dynamic discounting, traditional trade finance instruments are being digitalised. These processes are made more flexible and resilient by banks leveraging technology through upskilling in-house teams and striking strategic relationships with fintechs.

One example is the collaboration between ANZ and Taulia, a provider of cloud-based working capital management solutions that processes more than US$500 billion annually and serves millions of businesses around the world, including global corporations like Airbus, AstraZeneca and Nissan.

As Steve Scott, Head of APAC, Taulia, explains, the strategic relationship is a complementary one where ANZ provides the banking and financial services, and Taulia delivers "data as quickly as possible, as efficiently as possible and as simply as possible, to benefit both the supplier and the buyer in a trading relationship."

DATA AT THE HEART OF EVERYTHING

Simply put, it is all about data, Scott says, noting that fintechs and banks are increasingly coming together to provide the tools that enable underlying operational data to be used efficiently. This in turn enables the creation of innovative financial products and services, which offer improved cash management capabilities, better operational efficiencies and heightened transparency across the supply chain ecosystem.

Furthermore, the end-to-end solutions offered by a bank-fintech collaboration can equip corporate treasuries with better fraud-protection capabilities, help them to meet diverse compliance and reporting requirements, and provide access to granular insights that aid good business decision-making.

The demand for these services is recognised by the market – as the funding attracted by fintechs shows, particularly for those operating in the payments, supply chain and sustainability sectors. The payments sector was the top sub-sector attracting US$16 billion in H1 2023 while fintechs serving the supply chain, logistics and green sectors raised over US$10 billion in the same period, bucking a downward trend in the overall fintech funding space.[13]

AGENTS OF CHANGE

Looking ahead, strategic relationships like the one between ANZ and Taulia could become the order of the day as businesses recognise the importance of technology in streamlining and optimising their supply chain management systems and see it as a powerful agent of change.

Why this shift? Because increasingly they understand how AI and machine-learning can improve demand and cashflow forecasting capabilities, and that blockchain can help to digitalise the traditionally paper-based world of trade finance securely and transparently. Digital payment systems are seen as facilitating timely payments to suppliers. And holistic, data-driven supply chain management software solutions are being embraced for their ability not only to integrate inventory and accounts receivable management – reducing costs and strengthening cash flows – but also to drive ESG-related improvements across the value chain, making global supply chains more sustainable and resilient.[14]

"While we still see a few bumps in the road – inflation affecting consumer sentiment, credit challenges, China's economic slowdown – when it comes to supply chain finance, we absolutely are finding companies focusing on building supply chain resiliency and looking at it not so much as an opportunity to benefit only themselves, but as an efficient tool to deliver capital and finance into the ecosystem," says Scott.

TAULIA

SMARTER, MORE CONNECTED WORKING CAPITAL CHOICES ACROSS PAYABLES AND RECEIVABLES

PLUS $500 BILLION IN SPEND PROCESSED ANNUALLY

170+ COUNTRIES HAVE CLIENT OPERATIONS

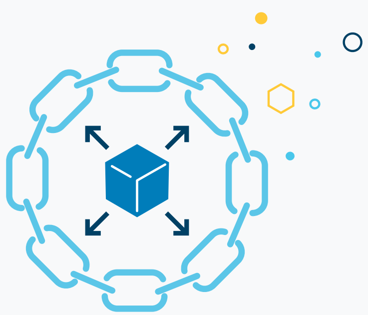
84% SUPPLIER SPEND TYPICALLY ENROLLED BY END OF YEAR 1

+4 MILLION COMPANIES USE TAULIA TECHNOLOGY

1.3 MILLION DAILY INTERACTIONS WITH SUPPLIERS

14+ YEARS OPERATING

TAULIA IS NOW PART OF SAP



2. MACROECONOMIC AND GEOPOLITICAL CONSIDERATIONS

The post-pandemic global economic recovery has been hobbled by a range of interconnected macroeconomic and geopolitical factors.[15] On the macro front, the unprecedented run of record-low interest rates ended[16] with central banks raising rates seeking to control inflation, which in turn has been further fuelled by geopolitical factors – including the war in Ukraine and maritime threats in the Red Sea – and their impact on commodity, energy, shipping and insurance prices.[17]

GEOPOLITICS: GAME-CHANGER

As economies around the world struggle with slowing growth, geopolitical tensions are widening the fissures that were already developing in longstanding international relationships.[18] One of the biggest roadblocks to the global economic recovery is the war in Ukraine. Apart from triggering a humanitarian crisis, the conflict is contributing to inflationary trends worldwide, as the supply of key commodities such as oil and gas, as well as food staples such as wheat and rice,[19][20] have been disrupted.

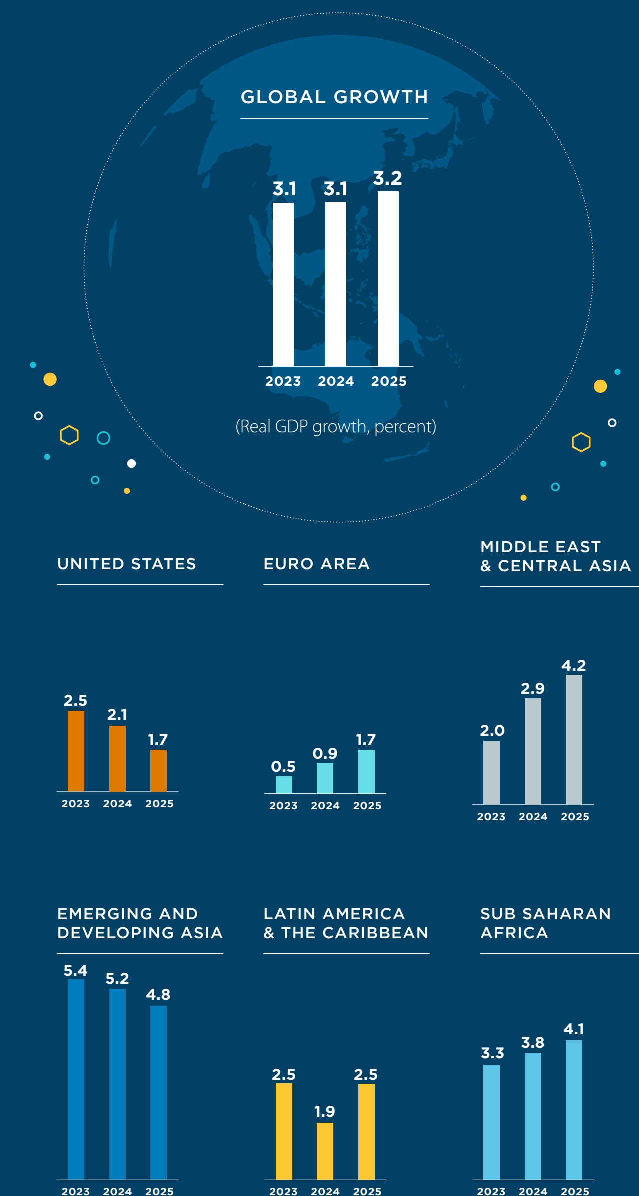
The situation is further complicated by the fraying US–China relationship, leading other economies – large and small, developed and emerging – to turn inwards or to regional allies. In a sign of trade flows affected by geopolitics, European ports have seen a drop in volumes partly attributable to the Ukraine conflict,[21] while Chinese exports to ASEAN, the US and EU fell 10%, 17% and 7%, respectively (YoY), and exports to Russia leapt 117% in the second quarter of 2023.[22]

“The big supply-chain game-changer from a geopolitical risk perspective is the Russian invasion of Ukraine,” says Cameron Mitchell, Head of Geopolitical Risk, ANZ. “Over the near- to medium-term, we need to be mindful of such low-likelihood, high-impact events, particularly in light of recent events in the Middle East. Then there is the obvious one: China–US relations.”

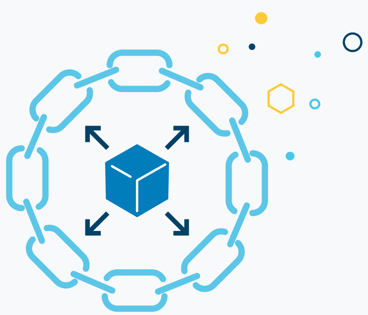
Amid this backdrop, the quest for economic security means an increasing number of countries are favouring bilateral trade over multilateral trade, and nationalistic industrial policies are the order of the day. The US has moved to restrict the export of certain technologies to China, pumping in nearly US$300 billion to boost domestic semiconductor manufacturing capacity under its CHIPS and Science Act.[23] Other advanced economies like Japan, South Korea and the EU have similar policy frameworks, while China has moved to control access to gallium, germanium and graphite, which are key raw materials for the semiconductor and wider electric vehicle industries.[24]

WORLD ECONOMIC OUTLOOK JANUARY 2024

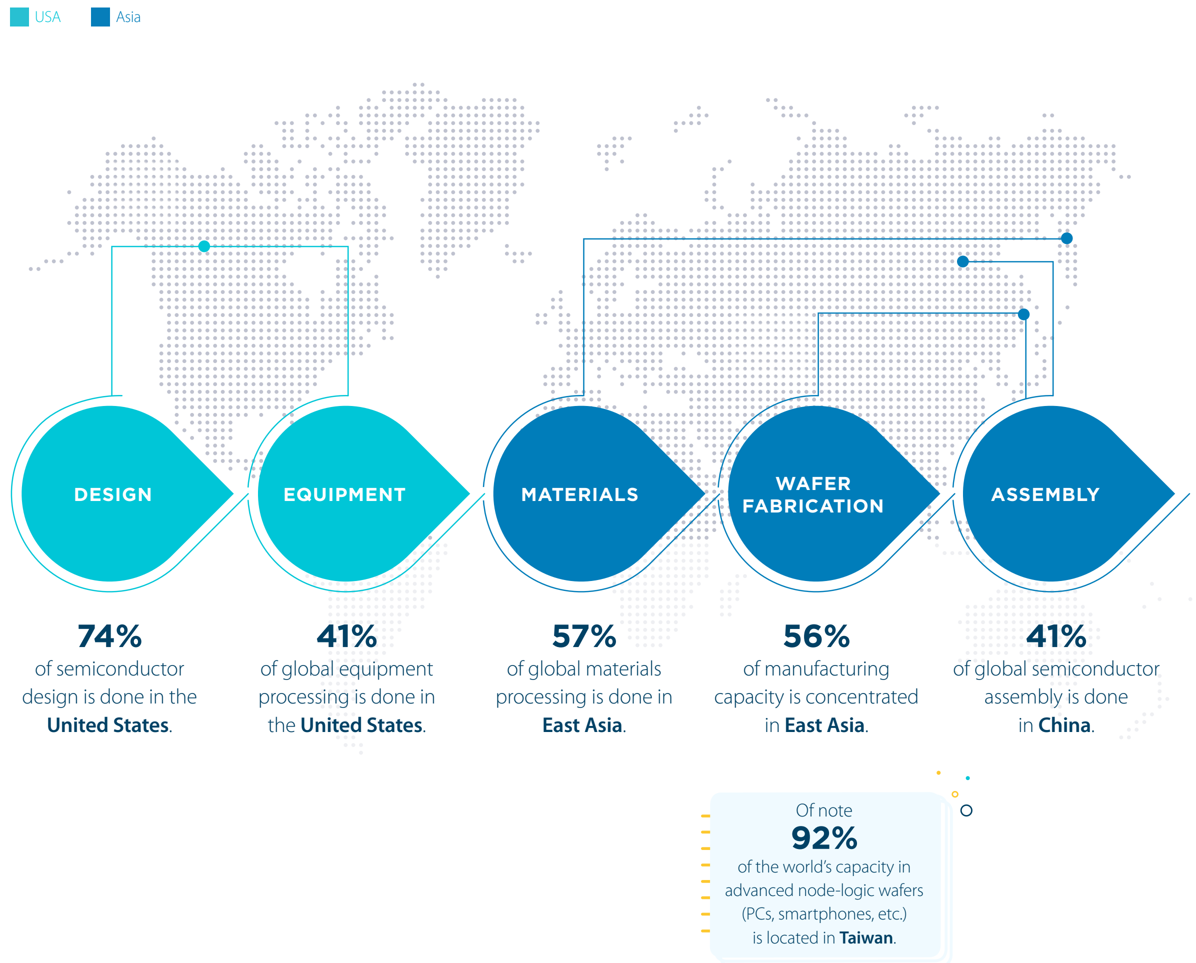
GROWTH PROJECTIONS BY REGION



Source: https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024



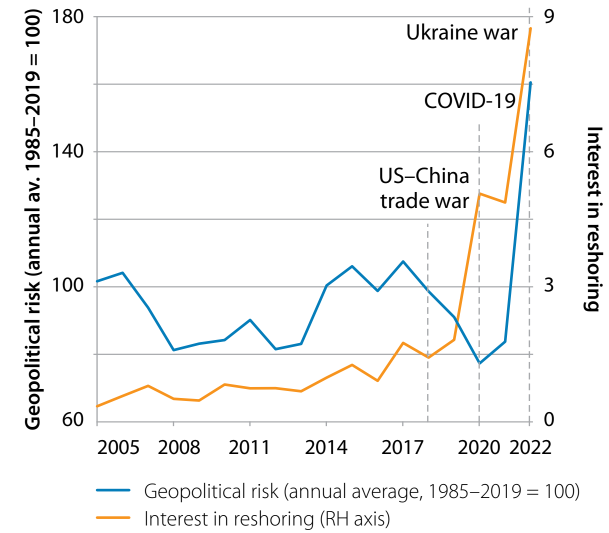
SEMICONDUCTOR CONCENTRATION



Source: Deloitte analysis

RISING GEOPOLITICAL TENSIONS AND FOREIGN DIRECT INVESTMENT FRAGMENTATION

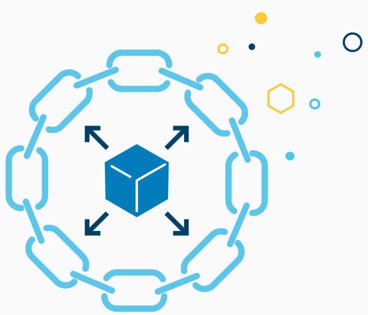
RECENT YEARS HAVE SEEN INCREASING GEOPOLITICAL RISK AND COMPANIES' INTEREST IN RESHORING AND FRIEND-SHORING.

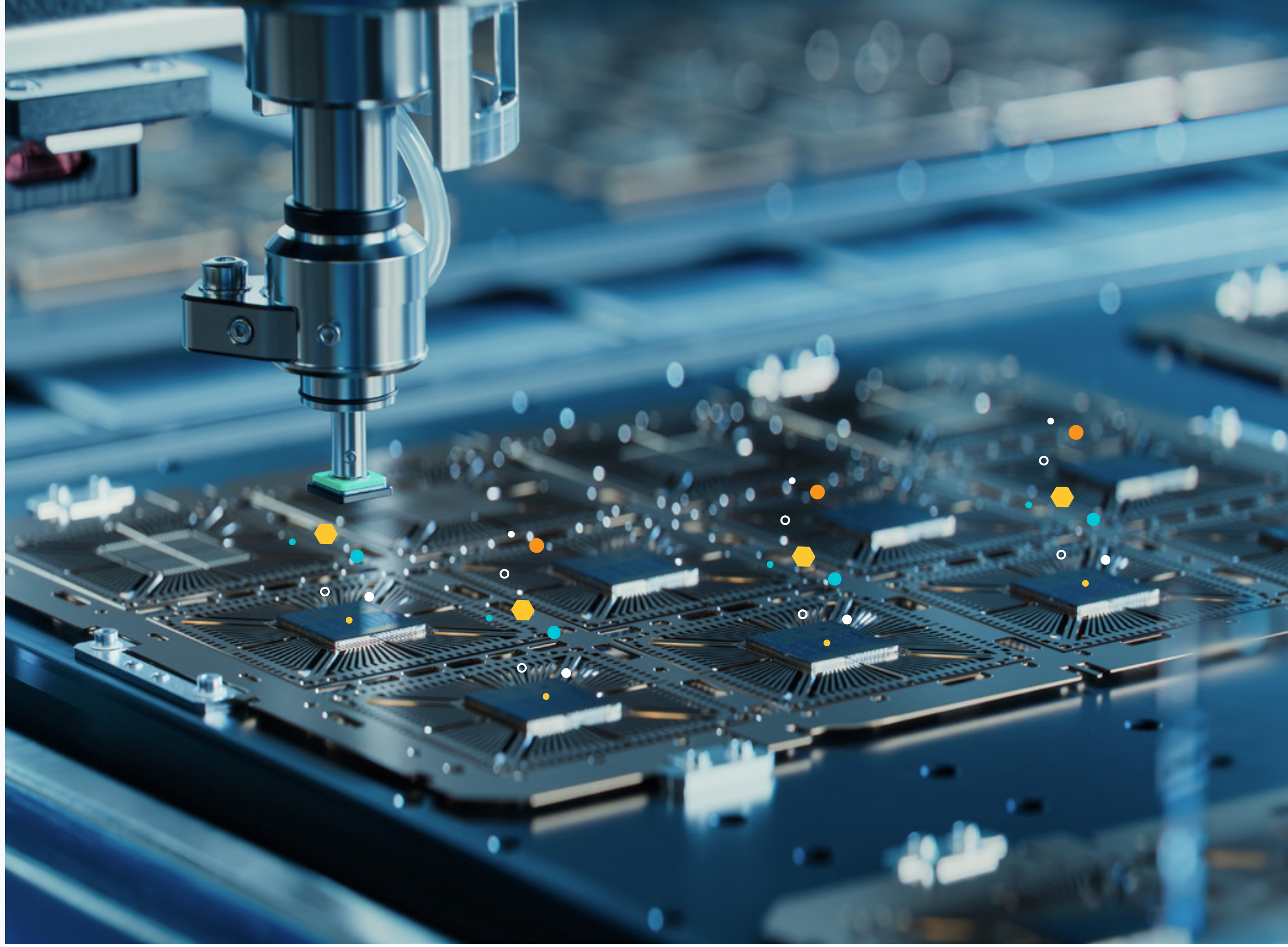


Note: The interest in reshoring measures the frequency of mentions of reshoring, friend-shoring, or near-shoring in firms' earnings calls.

Sources: Bailey, Strezhnev, and Voeten (2017); Hassan and others (2019); NL Analytics; and IMF staff calculations.

As these retaliatory moves threaten to snowball, it will accelerate nearshoring and friend-shoring trends globally as companies seek to mitigate geopolitical risks by relocating supply chains. These shifts will also be dictated by the formation of fresh alliances, such as those emerging between parts of Asia, Africa and the Middle East, even as the US, EU and their allies rebalance their relationships with China.



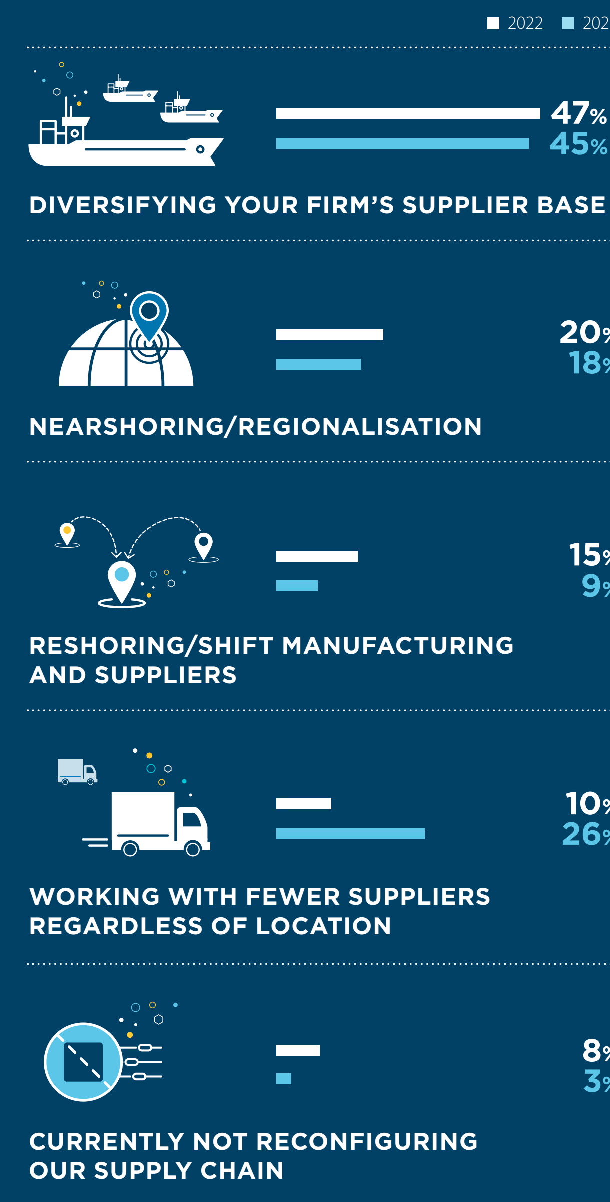


Indeed, discussions about reshoring and friend-shoring are on the rise, as analyses of earnings-call transcripts reveal[25] – matching the results of another study showing a rise in friend-shoring since late 2022.[26] That said, despite signs that decoupling of the US and Chinese economies is picking up,[27] a complete rift is unlikely given the interdependence of both economies and their strong trade links following years of globalisation: China remains America's third-largest trading partner behind Canada and Mexico.[28]

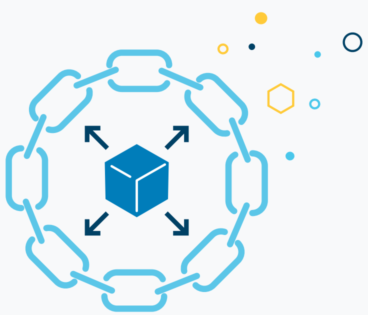
Nor will other countries find it easy to disengage fully given China's manufacturing prowess and its hold on the global supply chain. This reliance has led to a pick-up in the diversification strategy known as "China Plus One", where companies look to complement their China-based production and supply hubs with alternatives in Asia.

That list includes countries like Vietnam, Thailand and Malaysia. Mexico also stands to benefit due to its proximity to a large market like the US, while Australia and Canada will look to fill supply gaps in the critical materials space, says Mitchell. India, too, should gain with its recent spate of business-friendly reforms and its positioning as a democratic counterbalance to China in the region.

COMPANIES' PRIMARY APPROACH TO RECONFIGURATION AND THEIR MOTIVATIONS



Source: https://impact.economist.com/projects/trade-in-transition/key-findings/key-finding-1/



MACROECONOMICS: THE MONETARY POLICY CONUNDRUM

While politicians ink trade pacts with an evolving roster of allies, central bankers continue to battle inflation while trying to keep recession at bay. While their efforts are having an impact,[29] a reduction in interest rates may still be some time away.

In the US, where the Federal Reserve raised interest rates to a 22-year high in July,[30] a policy pivot might not happen until the middle of 2024, says Richard Yetsenga, Group Chief Economist, ANZ. In the UK, the Bank of England's fight against inflation – including 14 rate hikes in 21 months – sent mortgage rates to a 15-year high.[31] Meanwhile, in markets like Australia and New Zealand, which haven't moved as aggressively as the Federal Reserve, interest rate cuts are even further away.

High interest rates increase the vulnerability of companies by exacerbating their debt burden, which can have knock-on effects across the supply chain. For instance, a growing number of companies around the world say late payments are on the rise,[32] as businesses deal with the rising cost of capital and liquidity constraints.[33] ANZ is also seeing its institutional clients using free cash flow and cash on hand to reduce their working capital debt, and more closely scrutinising their future funding requirements.

Yet, even as central banks juggle short-term stability considerations with the longer-term impact of inflation, the view is far from dire, Yetsenga says. Financial stress is more localised than during the 2008–09 financial crisis and household balance sheets are stronger in most major markets, including the US, Australia, New Zealand and South Korea.

At the same time, emerging market powerhouses like China and India continue to compete for investors' attention. Foreign direct investment (FDI) flows into China grew 5% to US$189 billion in 2022, while Malaysia attracted US$17 billion, a record jump of 39%. Meanwhile, Singapore received US$141 billion – an 8% rise – while FDI flows to India rose 10% to US$49 billion.[34]

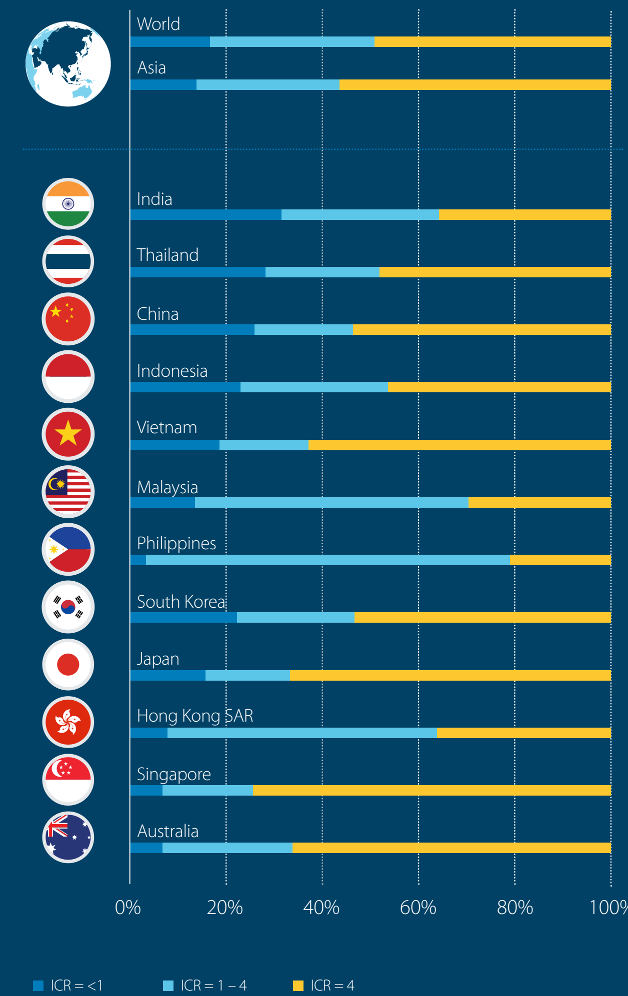
In short, while a full-blown crisis is unlikely, a global slowdown in the near term cannot be ruled out. Consequently, policymakers will need to act quickly to fend off further instability in individual institutions by directing additional liquidity where it is needed, and balancing both financial stability and price stability.[35]

"China's trajectory has increasingly been questioned, which will have similarly large impacts on the rest of the region, where people will just naturally canvass other markets. And while India is not a replacement for China, it's definitely attracting more interest than has been the case historically."

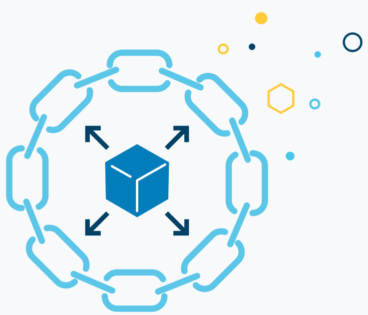
Richard Yetsenga – Chief Economist and Head of Research, ANZ

DEBT IN VULNERABLE FIRMS BY COUNTRY

SHARE OF CORPORATE DEBT BY INTEREST COVERAGE RATIO



Source: Capital IQ, Bloomberg, and IMF staff calculations.
Note: ICR = Interest coverage ratio.



3. CLIMATE CHANGE AND THE GLOBAL PUSH TO DECARBONISE

While the ebb and flow of geopolitics and macroeconomics continue to influence supply chains in the near- to medium-term, and will remain prominent, climate change and the ongoing push to reduce emissions and embrace the broader ESG agenda could well match the first two influences on the international trade landscape over the long term.

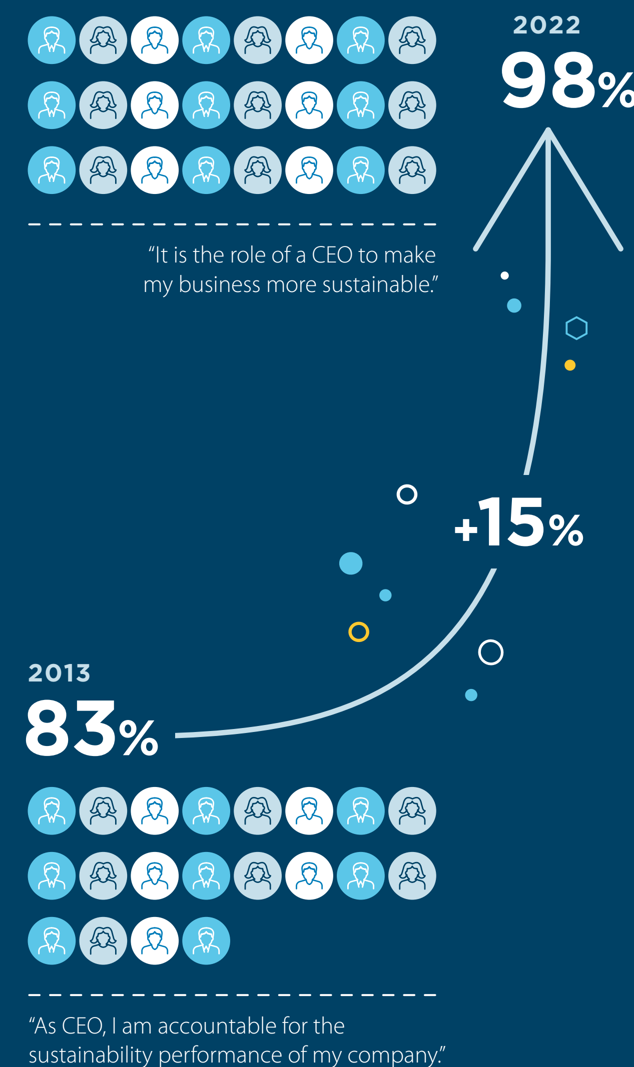
Climate change has increased the frequency of extreme weather events, including wildfires, heat waves and floods, around the world.[36] The past nine years (2015 to 2023) were the hottest since records began,[37] oceans are warming along with the planet,[38] and 2023 was the hottest year on record.[39]

These shifts carry a significant potential human and fiscal cost, and could physically disrupt trade networks and transport infrastructure, including maritime routes through which the bulk of international commerce is conducted. For example, the Panama Canal now restricts the number of ships it can handle as nearby lakes dry up, affecting its ability to operate at full capacity. Meanwhile, similar disruptions have occurred elsewhere with, for instance, China's Yangtze River – a crucial link in domestic and international trade[40] – suffering from receding water levels.[41]

From agriculture to construction to manufacturing, the impact of a warming planet is being felt across sectors. "As climate change drives a progressively larger wedge into free trade, the efforts to build resilience will only grow as an influence on supply chains. This will have a major impact on the nature of trade and how that's conducted," says Yetsenga.

With the planet's natural resources depleting at record rates and more than half of global GDP (around US$44 trillion) dependent to some extent on nature and its ecosystems,[42] conserving biodiversity is crucial to sustaining not only the future of economic growth but our way of life. There is growing recognition of the urgency for change, with many corporate leaders around the world moving sustainability to the top of their agenda not only to differentiate themselves from the competition but also to secure future growth by building resilience against climate and nature risks.

CEOS ARE STEPPING UP AS ADVOCATES FOR SUSTAINABILITY



Source: Page 12, UNGC – Accenture CEO Study on Sustainability, Accenture

FINDING OPPORTUNITIES IN ADVERSITY

The need to build resilience and grow sustainably has led to a number of ongoing initiatives. Along with the global push – led by governments and private entities[43] – towards decarbonisation, regional programmes range from overhauling land-use practices in Italy to harnessing solar power in Africa to protecting coral reefs in the Americas,[44] and meeting the UN's 17 SDGs.[45]

Efforts are also underway to develop the capability to track the emissions of every entity in the global supply chain as emerging disclosure obligations require more businesses to track and disclose emissions. These include Scope 1 emissions which occur from sources the business owns or controls, Scope 2 emissions which cover the indirect emissions related to the energy a business buys from its energy provider, as well as the more complex and hard-to-measure Scope 3 emissions which cover upstream and downstream emissions from its suppliers and from its customers' use of its products.[46]

Yet another example is that of the Carbon Border Adjustment Mechanism (CBAM) – the EU's latest regulatory initiative – which taxes the import of carbon-intensive products, such as cement, iron and steel. This measure requires businesses to acquire greater visibility and transparency across their supplier network in order to correctly identify the origins and suppliers of products, and in time, might impose financial penalties for incorrect reporting.[47]

While these measures may seem onerous, they could encourage companies to monitor their supply network better or move their production to countries with stringent climate policies and encourage countries to strengthen their regulatory frameworks in order to attract global businesses. And by doing so, such initiatives can offer a range of possibilities, from generating employment to fuelling economic growth.

On a broader scale, they can create a world capable of sustainable growth while contributing to decarbonisation. But funding them requires huge capital investment. By some estimates, creating the physical assets needed for the decarbonisation transition alone will require capital expenditure of over US$9 trillion annually through 2050.[48]

FINANCING SUSTAINABLE BUSINESS PRACTICES

Finance, in other words, is at the heart of a sustainable transition – and in this regard, banks like ANZ play a key role by funding and facilitating social and environmental outcomes. This includes offering a variety of sustainable financing options that incentivise borrowers to meet targets ranging from reducing Scope 1, 2 and 3 emissions to responsible farming and sourcing practices. For example, Cesbert notes, ANZ has joined hands with Pollination, a climate change investment and advisory firm, in seeking to deliver solutions that will help institutional clients address biodiversity-related issues and successfully decarbonise their operations.[49]

"Sustainability-linked products are an effective way to influence best practices across the supply chain," says David Simmons, Executive Director in ANZ's Sustainable Finance team. "And it's not just about the environment – targets can also be linked to various other ESG metrics."

Those metrics go beyond ensuring compliance, according to Nancy Wang, Director of Sustainable Finance, ANZ. The purpose of sustainability-linked products is to incentivise companies to go beyond business-as-usual practices and reach for ambitious sustainability performance targets that are material to their core business and aligned with strategy. Enhanced due diligence on the company's ESG credentials performed by bankers with expertise in sustainable finance and/or independent third parties also assess whether the labelled product is fit for the customer. Furthermore, the Asia Pacific Loan Market Association's Sustainability Linked Loan Principles set out voluntary market standards which have evolved as the market has developed, notes Wang.

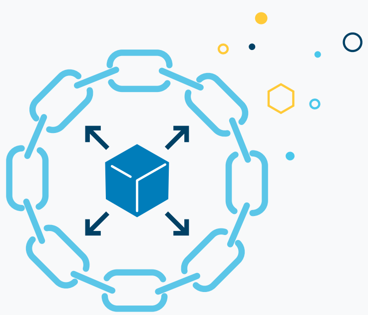
This is in addition to the general due diligence performed by the bank to check that a company is not in business with a sanctioned entity, does not use raw materials sourced using forced labour, follows fair and equitable hiring practices, and, in markets like Australia and the UK, adheres to the requirements of the Modern Slavery Act.

ESG INITIATIVES ADOPTED BY COMPANIES

0% – 35%

Increased reporting to ESG guidance frameworks	32.9%
Identified specific ESG metrics relevant to the business	32.8%
Established a team focused solely on implementing ESG policies	31.7%
Conducted a national-level audit of countries' regulations	31.1%
Invested capital totalling more than 5% of company profits into ESG policies	31.0%
Invested capital totalling less than 5% of company profits into ESG policies	28.1%
Conducted an ESG audit across all tiers of their supply chain	25.2%
Updated procurement policies and selection criteria to focus more on ESG	22.8%
Currently none but expecting implementation in 2023	5.6%
Currently none with no plans for future implementation	2.0%

Source: Trade in Transition Global Report 2023 Economist Impact



Lenders play a key role here by conducting rigorous assessments to gauge the performance of current and potential borrowers on a range of environmental and social metrics. "Assessing a company's policies such as its supply chain code of conduct and labour practices is part of the standard customer suitability assessments we undertake for all Sustainable Finance customers to determine whether we are serving companies with the right track record," says Kate Cheeseman, Associate Director of Sustainable Finance, ANZ.

These checks and balances are becoming more important as awareness grows about the magnitude of the challenge at hand. "Given the increasing focus on ESG and the wave of global regulations surrounding those factors, sustainability-linked issuances – products able to incorporate both environmental and social targets – must demonstrate genuine ambition, particularly as the issues we are trying to tackle become more urgent," Simmons says.

Additionally, much more attention is being paid to how raw materials and feedstock are sourced, as well as issues like sustainable forestry and agriculture, and nature-related risks and opportunities, Wang adds. "We are seeing increasing diversity in ESG metrics including those focused on sustainable supply chains, supported by both sustainability-linked and use-of-proceeds loans and bonds that are available in the market."

The example of Nestlé is instructive in driving sustainable supply chain finance. In 2021, ANZ provided a facility that Nestlé could use to pay its suppliers affiliated with groups like the Rainforest Alliance/UTZ and Fairtrade for its Nespresso Coffee line – with the margin linked to the suppliers' certification status. Suppliers that meet certification requirements receive the margin benefit and lose it if their rating slips. By using a variety of financial incentives, ANZ supported Nestlé to build a more sustainable supply chain across geographies.

And, as Wang notes, green issuances continued to dominate the sustainable debt market in 2023, as per data from the Climate Bonds Initiative, with deals supporting low-carbon energy projects exceeding those originated by fossil-fuel companies. Furthermore, H1 2023 was reported to be the most promising half-year period for sustainability-linked bonds fully aligned to Sustainability-Linked Bond (SLB) targets, which cover all material sources of emissions.

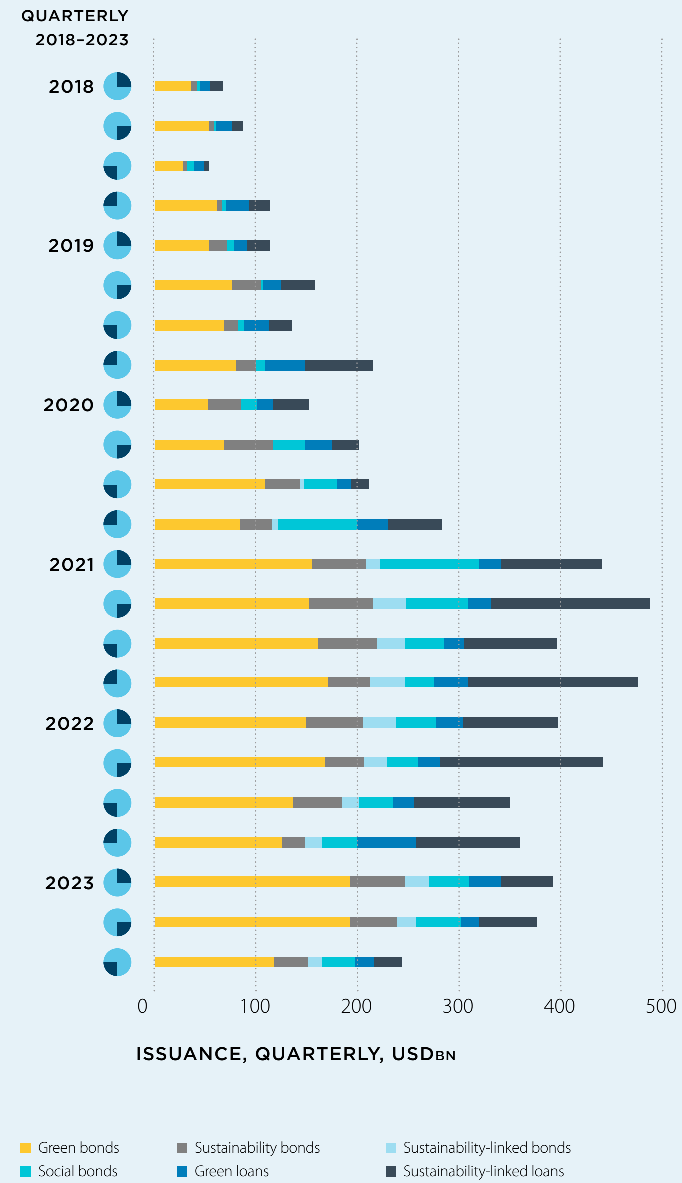
And while, as we have noted, huge amounts of capital are required to finance the transition, many banks have stepped up to deliver some of what is required. ANZ, for instance, has committed AU$100 billion by the end of 2030 in social and environmental outcomes through customer activities and direct investments by the bank.[50] By some estimates, the size of the global sustainable supply chain finance market could eventually be as much as US$660 billion and is growing at a rate of 15–20% annually.[51]

Admittedly, ensuring these funds are disbursed in a responsible manner and to deserving borrowers is a challenging undertaking, not least because standards and regulatory frameworks can differ across markets and geographies. However, large banks are typically well-equipped to deal with this, thanks to their international footprint complemented by teams of experts on the ground who possess an in-depth understanding of, and access to local markets, and who conduct thorough due diligence before financing any company or project.

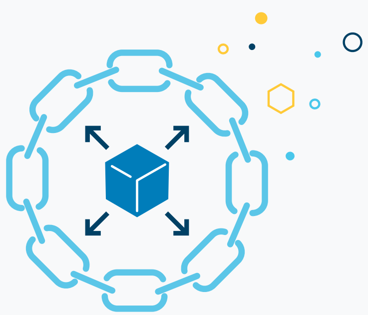
"Our team is composed of bankers and sustainability specialists from a range of backgrounds, and the depth and breadth of insight they provide informs ongoing product innovations in sustainable supply chain finance. Their due diligence also helps grow our understanding of the practices of our clients, as well as that of our partners and suppliers down the value chain."

Nancy Wang – Director, Sustainable Finance Portfolio, ANZ

NEW ENERGY FINANCE ISSUANCE



Source: Bloomberg New Energy Finance



4. REGULATORY DEVELOPMENTS

The evolving framework of regulatory requirements in areas like ESG, supply chain finance, capital-raising and accounting, presents an additional challenge to companies, including banks. However, regulators worldwide recognise that the plurality of reporting norms imposes a significant compliance burden on companies, and some are working to standardise taxonomies and disclosure requirements.

SUSTAINABILITY STANDARDS: REGULATORY PUSH INTENSIFIES

In June 2023, the International Sustainability Standards Board (ISSB) issued its inaugural standards – IFRS S1 and IFRS S2 – which prescribe a standardised language for companies to use in disclosing the impact of climate-related risks and opportunities on their bottom line. By aiding disclosure, it is hoped that the standards will enhance investors' confidence in the sustainability practices of corporates.[52]

Analysts can also expect more disclosures involving corporate ESG data. Yet, while it has become more common to report Scope 1 and 2 emissions as companies comply with standards like ISSB, Scope 3 emissions remain a challenge.[53] Because they cover the length and breadth of a company's supply chain and its end users, Scope 3 emissions are harder to measure; a lack of data is a core challenge, which can, in turn, affect accountability and delay change.

But this is set to shift, says Ashok Devidas, Head of Supply Chain Finance, ANZ, driven by the ongoing standardisation of market requirements, making compliance more manageable and facilitating tangible advancements in sustainability and supply chain financing (see next section). This shift is crucial, considering research indicates that companies, despite allocating resources to comply with diverse ESG benchmarks globally,[54] grapple with translating their well-intentioned sustainability commitments into actionable results[55] even as they collect data at every node of their supply chain to satisfy disclosure norms.

ACCOUNTING STANDARDS: GREATER TRANSPARENCY IN SUPPLY CHAIN FINANCING

Over the next few years, supply chains will be affected by influential regulations mandating accounting disclosures from corporates as policymakers work to clear the air around the reporting of supply chain financing arrangements.

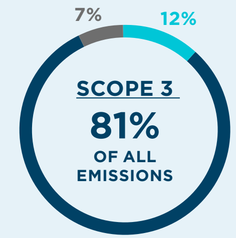
Among these is the Financial Accounting Standards Board's move to require U.S. companies to disclose details under GAAP of their supply chain finance arrangements, including payment terms, introduced in 2023.[56,57] The decision, which has been emulated by the International Accounting Standards Board for reporting periods in 2024, enhances transparency by mandating and standardising disclosure norms.[58,59]

"For several years, supply chain financing was not reflected in accounting, so its effects were not visible to the market. We support more transparency, and these developments are a move in the right direction."

Ashok Devidas – Head of Supply Chain Finance, ANZ

DISCLOSURE EXAMPLE

CLEAR DISCLOSURE OF GREEN HOUSE GAS EMISSIONS IN SCOPE OF THE NET-ZERO COMMITMENT

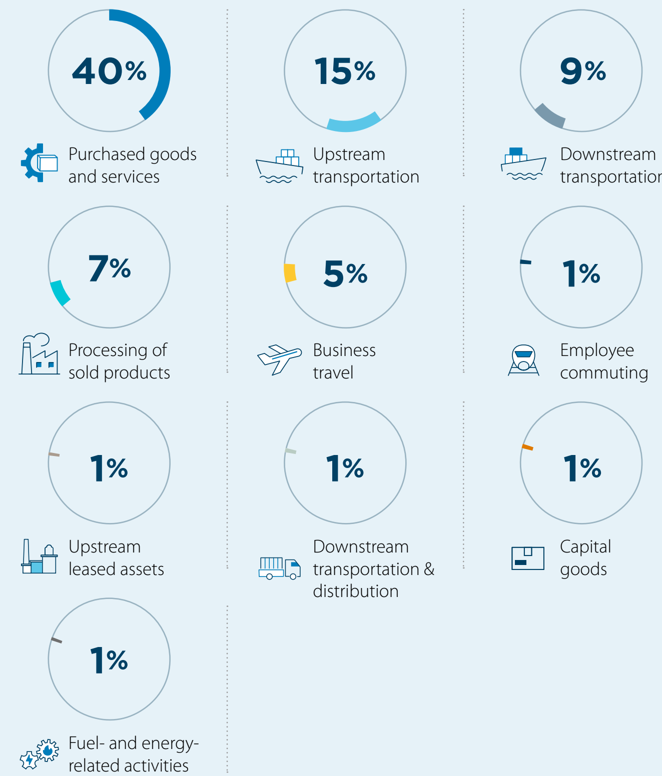


Scope 1: Emissions from sources that an organisation owns or controls directly, e.g. burning fuel in company's fleet vehicles.

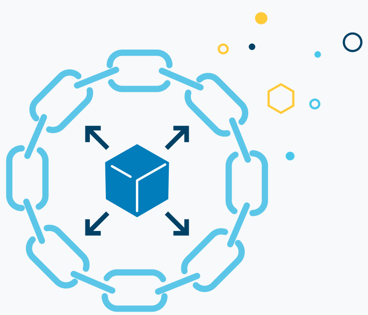
Scope 2: Emissions a company causes indirectly that happen when creating the energy it uses, e.g. from electricity used in its building.

Scope 3: All emissions not covered in Scope 1 or 2, created by a company's value chain.

SCOPE 3 BREAKDOWN (81% OF ALL EMISSIONS)



Source: KPMG



PROTECTING SMALL AND MEDIUM-SIZED BUSINESSES

Regulations in some markets are seeking to shield small and medium-sized enterprises (SMEs) from the debilitating effect of late payments, which will have an impact on supply chains. As discussed in the previous edition of this paper, Australia's small business ombudsman directs a maximum payment term of 30 days from receipt of invoices from small businesses,[60] a move that drove the Payment Times reporting scheme, which requires large businesses and government enterprises to report their payment terms and times for small businesses.[61]

In September 2023, the European Commission proposed a new regulation, mainly to protect SMEs, which proposes a single maximum payment term of 30 days (down from the current 60-day term) for a majority of commercial transactions; restricting the extension of payment terms for certain transactions; and mandating debtors to automatically pay interest on late payments.[62] With more governments considering similar regulations too,[63,64] corporates will need to factor in the latest developments in the regulatory landscape while negotiating payment terms with their suppliers based on where they are located.

If adopted, such regulations will affect the ability of contracting parties to arrange commercial transactions – including making decisions around providing commercial credit through extended payment terms[65] – and will be a part of the regulatory landscape that will need careful monitoring in the coming months.

BANKING REGULATIONS: FROM BASEL III TO BASEL IV

This is a major regulatory development that will affect banks and their capacity as trusted advisors and providers of financing and liquidity across supply chains – and will prove a net benefit to supply chain financing. Basel IV is expected to be transformative for corporates when it comes to accessing finance as the regulation seeks to overhaul global bank capital requirements and change the institutional lending space.[66]

The staggered rollout started in January 2023 in countries including Australia,[67] with the UK set to go live in mid-2025[68] and the EU phasing in some elements from 2025.[69] This disparate application across markets will initially affect the competitive environment for banks compliant with Basel IV (or Basel 3.1, as it is also referred to) as they will need to adhere to more stringent capital conditions, which will, in turn, affect borrowing costs for clients. However, banks globally will ultimately be subject to these standards, and that should enhance the overall health and resilience of the global financial system.

As banks which support global trade like ANZ adjust to capital requirements mandated by new regulations, they are also supporting clients by educating them about the array of regulatory changes – helping clients to understand how these changes affecting banks and the broader supply chain financing sphere will impact the cost of financing and access to it.

"The more you educate people about the vast array of changes, the more comfortable they will get with the changes which ultimately increases adoption and understanding," says Damian Kwok, Head of Trade Portfolio and Capital Management, ANZ.

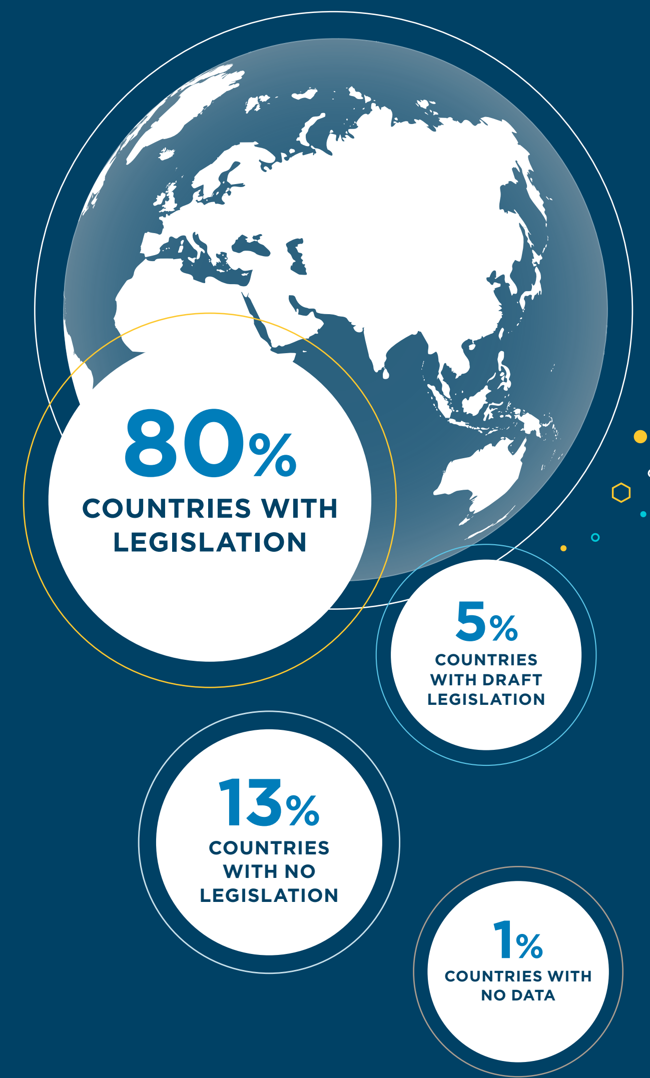
TAKING DIGITAL TO THE NEXT LEVEL

Regulators are also looking to address other risks affecting supply chains, such as the growing sophistication of cybercrime (with most countries enacting legislation to tackle this[70]), money laundering, modern slavery, and the increasing risk of sanctions against governments, corporations and individuals. There is also a global push by policymakers to tackle greenwashing[71] and aid the transition towards sustainable supply chains[72] with the help of technology.[73]

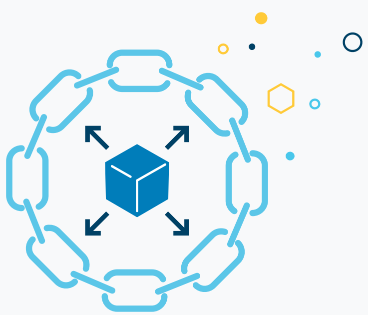
This has brought opportunities for fintechs as banks increasingly partner with them to tackle issues like cybersecurity.[74]

"As a new strategic relationship builds up with banks bringing their expertise in terms of trade, finance, risk management and compliance, and fintechs offering innovation, digital capabilities and agility, this collaboration will become an important avenue for the growth and development of supply chain finance," says Jessica Iacobucci, Head of Trade & Supply Chain Sales, Australia & PNG, Institutional Banking, ANZ.

CYBERSECURITY AND GLOBAL LEGISLATION



Source: https://unctad.org/page/cybercrime-legislation-worldwide



However, as collaborations grow so has the need to comply with an evolving framework of regulations. For companies and banks alike, navigating the evolving regulatory landscape and staying compliant can be daunting. Here too, digitalisation can help. AI can assist, for instance, with the heavy data demands of Scope 3 disclosures by quickly processing terabytes of data to facilitate disclosure and enhance transparency across the supply chain.

"As regulators enhance their focus on digitalising the trade system, they will create efficiencies in the supply chain, enable greater transparency, reduce bottlenecks and ultimately help goods to flow safely, efficiently and sustainably," notes Devidas.

Countries have set up digital economy agreements for more efficient data transfers and smoother digital trade cooperation,[75] and to get around rising digital protectionism,[76] which curbs the flow of information between trading partners and hinders access to opportunities.

The first of these pacts, the Digital Economy Partnership Agreement (DEPA), was signed in July 2020 by Chile, New Zealand and Singapore. In December 2020, other pacts followed including a deal between Australia and Singapore that contains a range of initiatives to reduce barriers to digital trade, including new commitments on e-invoicing and e-payment, and smoothing cross-border data flows for business purposes.

However, as more operations go online, businesses are increasingly vulnerable to cybercrime and it is not always easy to keep pace with criminals whose methods constantly evolve. This makes cybersecurity an ever-higher priority for all, with governments around the world ramping up efforts to protect against an increasingly adverse threat environment.[77]

Another permanent feature of the supply chain landscape is the advent of regulations designed to address specific market needs and ultimately increase transparency across the system, which will benefit everyone involved despite the many challenges. As Kwok says,

"There are so many complex parts and varied interests. Banks and financiers are just one element, but you also have customs authorities, corporates, shipping companies – it goes on. So, you need a regulator to pull everyone together and push hard for change."

Building a strong and supportive framework, Kwok adds, requires that all actors work together. And when each stakeholder plays their part, more transparent, efficient and sustainable supply chains should be within reach.

"Getting ahead of the cycle is difficult because sophistication is increasing by the day, which is why banks like ANZ are dedicating considerable resources towards addressing this challenge in order to help protect our communities."

Damian Kwok – Head of Trade Portfolio and Capital Management, ANZ

CYBER ATTACKS ARE BECOMING MORE FREQUENT

THESE NUMBERS DEMONSTRATE BOTH THE SIZE OF THE CHALLENGE AND THE MANAGEMENT FACTORS WHICH CONTRIBUTE

96%
Cyber attacks are driven by financial gain

$10.5T USD
Cost of cyber crime by 2025

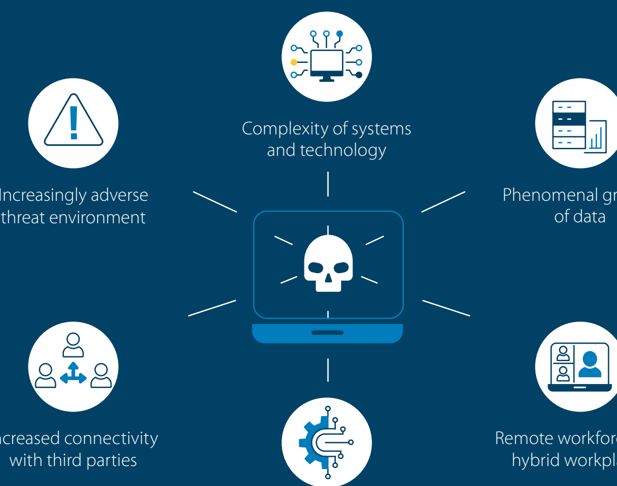
13%
Rise in ransomware attacks

$63K AUD
Average reported cost of a cyber attack for Australia SMB

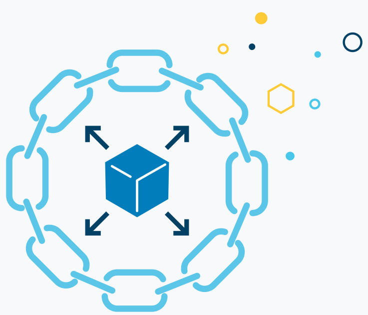
$2.11M AUD
Average cost of recovery from ransomeware

277 DAYS
Average time to identify and contain a data breach globally

KEY DRIVERS BEHIND THE SURGE IN CYBER ATTACKS



Source: www.anz.com/content/dam/anzcomau/documents/pdf/security/2021-02/anz-simplifying-cyber-for-business.pdf



5. EVOLVING CLIENT REQUIREMENTS

Regardless of their industry or geographic location, corporates have had to come to terms with significant changes in the past few years – the disruptive power of technology, trade disputes, the Covid-19 pandemic, changing consumer preferences and an evolving regulatory landscape, to name some of the most significant forces at play.

In the nascent days of the new year, some of these challenges persist while new ones have emerged. Macroeconomic factors are top of mind. So, too, are preoccupations around sustainability and the uncertainty created by fraught geopolitics, as well as the impact of domestic political cycles.

So, how are corporates coping? This section aims to provide insights from a supply chain finance perspective, shedding light on how corporates are adapting to the dynamic landscape described in this report.

STRIKING A BALANCE BETWEEN JUST IN TIME AND JUST IN CASE

The Covid-19 pandemic clogged global supply chains while driving demand for consumer durables,[78] making inventory management among the thorniest issues for companies. As factory and port closures become a thing of the past, companies are recalibrating their strategies to address new challenges like high inflation and interest rates, which have raised the cost of working capital and dulled consumer appetites.

Companies that pivoted from time-tested techniques such as "Just in Time" to a "Just in Case" inventory model during the Covid-19 pandemic, now aim to strike a balance between the two in a bid to control costs and ensure stocks are available without building up too much inventory. Juggling these conflicting needs, companies are also rethinking their supply chain finance strategies, including turning to technology, diversifying their supplier base and reaching out to their banking partners and third-party fintechs for support.

QUEST FOR GREATER VISIBILITY ACROSS THE SUPPLY CHAIN

While technology is a major disruptor, companies are also viewing it as an enabler – as evidenced by the growing demand for digital solutions that provide greater visibility across all layers of the supply chain.

"Our clients are looking to build sophisticated supply chain platforms. They're not just seeking a financing tool but end-to-end solutions," says Mary Ng, Director, Head of Supply Chain Finance Sales, North Asia for ANZ.

Specifically, companies are not limiting themselves to working capital management tools that help raise invoices, reconcile accounts, and better deploy their surplus cash. They are also seeking solutions that provide enhanced enterprise resource planning (ERP) data, enable provenance-tracking and help monitor the financial health of suppliers. These capabilities in turn feed into companies' ability to track and reduce emissions across their supply chain and address other ESG metrics.

"Customers are starting to understand the visibility offered by an end-to-end digitalised supply chain ecosystem and its impact in terms of better decision-making. That's driving demand for exploring different technological solutions," says Iacobucci.

Adopting such an approach not only enhances visibility; it also aids firms seeking a transition to a more sustainable model – a goal pursued by many. According to a joint study by Accenture and the UN Global Compact (UNGC), 49% of CEOs are moving their companies towards a circular business model. This shift aims to help build resilience against market and geopolitical trends, address resource availability challenges, and includes efforts to improve the measurement of sustainability data and understanding of social impacts in their supply chains.

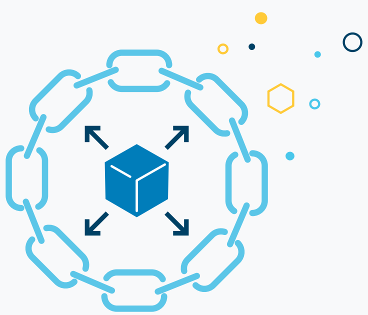
CREATING RESPONSIBLE SUPPLY CHAINS

47%

of CEOs state that building responsible supply chains is part of their sustainability strategy

DATA	VISIBILITY	LOWERING EMISSIONS
55%	**54%**	**34%**
of CEOs are enhancing **their sustainable data** collection capabilities	of CEOs are **strengthening visibility** into the **social impacts** of their supply chain	of CEOs are reducing their total **Scope 3 emissions**

Source: Page 13, UNGC-Accenture CEO Study on Sustainability, Accenture



This is being driven in part by the global push towards decarbonisation as well as growing calls for changes to business practices from increasingly environmentally conscious consumers. As a result, more companies across industries are framing sustainability policies and embedding ESG considerations into their supply chains, including by defining key performance indicators (KPIs) for their business partners across the value chain.

At the heart of this are Scope 3 emissions, which, as the World Economic Forum has noted, can comprise up to 90% of a company's total emissions across the supplier and customer value chain. That makes focus on Scope 3 emissions crucial in efforts to tackle climate change.[79] However, this won't be easy. While Scope 1 and Scope 2 emissions are relatively straightforward to monitor, determining Scope 3 emissions is significantly more challenging.

This is because Scope 3 emissions are broader, more complex and harder to track, encompassing, as they do, "the emissions of purchased goods and services… to the life-cycle footprint caused by customers using the goods, and the waste footprint to dispose of them".[80] Tracking suppliers' emissions, which are typically 70% of a firm's total emissions is a common priority, the WEF says. However, doing so successfully requires much more measuring and use of data as well as greater application of technology.

"The increased focus around Scope 3 emissions, especially the provenance aspect of it, is an important part of the evolving supply chain finance space and has become a key agenda for our customers," notes Iacobucci.

In response, banks like ANZ are collaborating with technology companies to build supply chain finance solutions that not only offer tools like dynamic discounting to help treasurers maximise the yield on their cash positions, but also enable the kind of data-driven supply-chain mapping capabilities that companies now desire.

"We are collaborating with third-party entities – like fintechs and AI companies – to provide solutions, not just on the finance side but also on the supply side to give clients the visibility and tracking capability they are looking for," says Ng.

ANZ's strategic relationship with Taulia and Pollination are prominent examples of third-party firms helping a leading bank in the Asia–Pacific to offer a sophisticated supply chain finance platform to mid- and large-size firms across industries.

SUPPLY CHAIN INNOVATION BY INDUSTRY

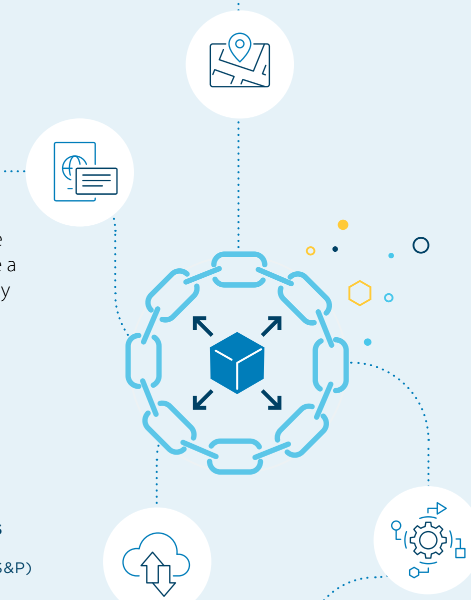
CEO SURVEY QUESTION: WHAT LEVEL OF IMPACT WILL THE FOLLOWING INNOVATIONS HAVE ON TRANSFORMING YOUR INDUSTRY'S ABILITY TO CONTEND WITH GLOBAL CHALLENGES?

GEOLOCATION TECHNOLOGY
CONSUMER PRODUCTS & GOODS (CPG)

24% of CPG CEOs feel that geolocation technology to map supply chain risks will have a high impact on their industry

MATERIALS PASSPORTS
INDUSTRIALS

34% of Industrial CEOs feel that materials passports for value chain transparency will have a high impact on their industry



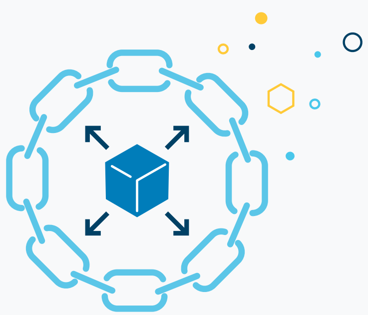
DATA INTEGRATION ACROSS VALUE CHAIN PARTNERS
SOFTWARE & PLATFORMS (S&P)

56% of S&P CEOs feel that data integration across their value chain partners will have a high impact on their industry

R&D FOR MATERIAL INPUTS
HIGH TECH

46% of high tech CEOs feel that R&D to identify substitutes for existing material inputs will have a high impact on their industry

Source: Page 15, UNGC-Accenture CEO Study on Sustainability, Accenture



CHINA PLUS ONE: DIVERSITY IS KEY

While embracing technology is top of the list for corporates, they are simultaneously looking to mitigate geopolitical risk by diversifying their supplier base. This has led to a rise in near-shoring and friend-shoring with the China Plus One strategy where companies look to diversify their supply links beyond mainland China by carrying out some of their manufacturing outside China.

This trend is in turn benefiting a number of economies around Asia. Vietnam, Thailand and Malaysia are among those poised to reap the benefits,[81] while India – the other Asian giant – is also seeking to attract manufacturers to set up shop and encourage global corporations to source from domestic producers.[82] This strategy makes sense from a cost perspective too as Chinese labour has become more expensive,[83] and supports the growth of domestic industries.

However, as noted earlier in this report, decoupling longstanding ties with Chinese entities is neither desirable nor feasible, given China's position as a major supplier of in-demand raw materials like rare earth metals and minerals.[84] Moreover, China's manufacturing prowess and unparalleled logistics network – built up over decades – cannot be easily replicated,[85] as is evident from the practice of many Southeast Asian nations importing intermediate goods from China to fuel their export-oriented industries,[86] and China's continued dominance of global exports.[87]

GROWING LOCAL CURRENCY USAGE TO REDUCE FX RISKS

With macroeconomic and geopolitical factors pushing up the cost of manufacturing,[88] US dollar financing, and volatility in FX markets, corporates in Asia–Pacific are increasingly considering reinvoicing in a major local or regional currency, or by drawing credit in a local currency to keep costs and FX risks low.

While the US dollar's primacy as the currency of global finance is not at risk yet, there is a rise in the use of alternatives like the renminbi, which is being promoted by China with the country settling about half of its cross-border trade and investment transactions in local currency. India has also stepped up efforts to use the rupee for cross-border payments while the ASEAN and BRICS blocs are working on plans to promote local currency transactions and boost regional connectivity and trade.[89]

BUILDING A RESILIENT GLOBAL SUPPLY CHAIN TO FACILITATE SUSTAINABLE TRADE

Going forward, two factors will become increasingly prominent in the evolution of the global supply chain:

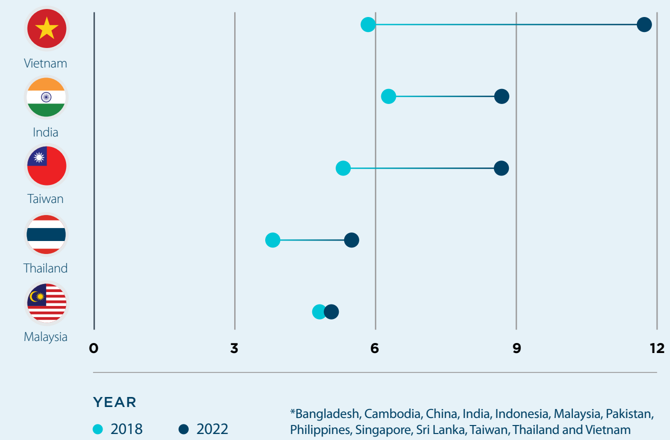
- Navigating the transition to a low carbon economy, including how that transition intersects with enduring challenges like liquidity management, risk management and digital transformation.
- The impact of technology on supply chain finance.

The shift towards ESG – and the broader movement towards sustainability – has raised a major challenge for the industry as companies try to understand the diverse taxonomies around the topic, gain better access to sustainable finance products, raise the green profile of their business, and prepare to comply with a raft of evolving regulations. To do this, they are looking to banking partners like ANZ and third-party entities for guidance on how to operate their business in a more ESG-centric way.

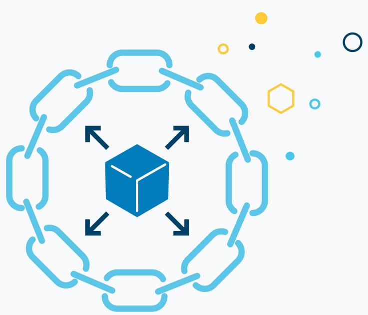
For their part, banks like ANZ are involved with working groups in various markets aimed at easing the way towards better ESG compliance, including helping regulators test initiatives to see how they work in the real world so they can set realistic standards that all parties can achieve.

US PREFERRED TRADING PARTNERS: A CHANGING LINE-UP

UNITED STATES, MANUFACTURED GOODS, % OF TOTAL IMPORTED FROM SELECTED LOCATIONS*



Source: Kearney



"Customers would love to be able to see something labelled by a bank as sustainable across the product suite," says Sally Robinson, Head of Guarantees, ANZ. "But that's going to take time as banks and third-party agencies get comfortable with how we classify that trade flow or that corporate as sustainable. But who determines that, and who's on the hook for that decision?"

Resolving this requires agencies and governments drafting taxonomies to clarify issues – which itself highlights another gap: a lack of standardisation when it comes to taxonomies and requirements across different markets, says Devidas. He points out that standardisation was crucial when digitising trade to boost cross-border and domestic trade, as was cooperation between agencies and government. It is no less important here.

That brings us to the second factor: the impact of technology, including AI, machine learning and data analytics, in scaling up sustainable and supply chain finance. When it comes to moving away from paper-based trading systems, for instance, nations like Sweden and Singapore are far ahead. Singapore, for example, is on its sixth version of a single trading window. Many countries, by comparison, lack even an initial digital window.

Success requires a push by regulators, as is underway in Australia, says Simone Fynmore, Head of Trade & Supply Chain Sales, Victoria, ANZ. The federal government is supporting corporations and industries to make progress in their technology journey. "It's about the use of data, the use of AI, and reducing complexity in our systems. And while it could be a few years before we see real outcomes, there is now real support and action from the government."

Meanwhile, banks like ANZ are constantly looking to deploy technological tools to help supply chain financing, including in areas like due diligence and risk planning, and make them more robust and compliant with know your customer (KYC) and anti-money laundering/counter-terrorism financing (AML/CTF) considerations. Within the bank, ANZ is deploying AI to create machine-learning capabilities that could generate deeper insights into areas of data that are more interpretative. ANZ is also deploying innovative technological solutions to corporates' working capital needs by working with firms like Taulia.[90]

The platform works by plugging into the client's ecosystem and ensures they can support their suppliers by, for example, early payment and data transparency, with an end-to-end working capital solution that supports them through the economic cycle. In this way, clients can benefit from a solution that is sustainable in a manner broader than ESG: it also supports customers and minimises supply chain disruption.

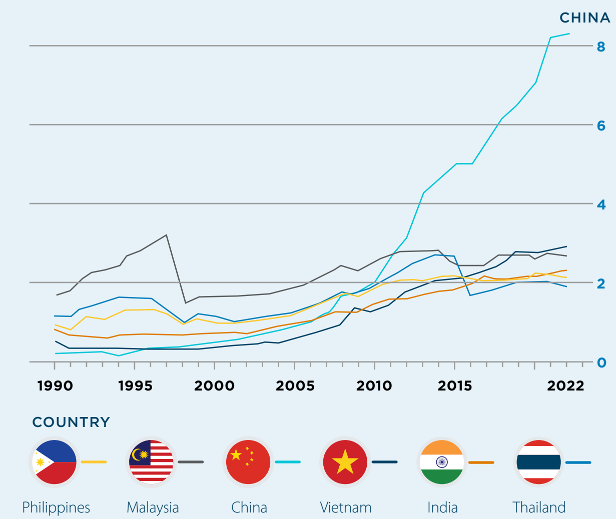
Finally, when it comes to the future of sustainable finance, says Kwok, digital solutions will confer enormous benefits across the supply chain, including in areas like analysing data, meeting ESG goals and stabilising supply chains. Linked to this, he adds, data transparency "will be absolutely critical".

"It's about the use of data, the use of AI, and reducing complexity in our systems."

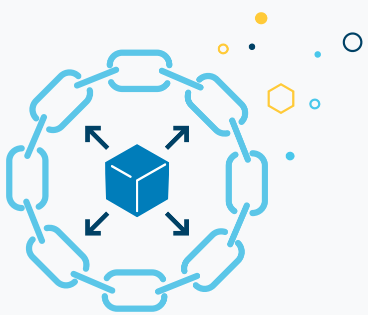
Simone Fynmore – Head of Trade & Supply Chain Sales, Victoria, ANZ

NO LONGER CHEAP: RISING MANUFACTURING LABOUR COSTS

MANUFACTURING LABOUR COST, $ PER HOUR



Source: Haver Analytics



CONCLUSION

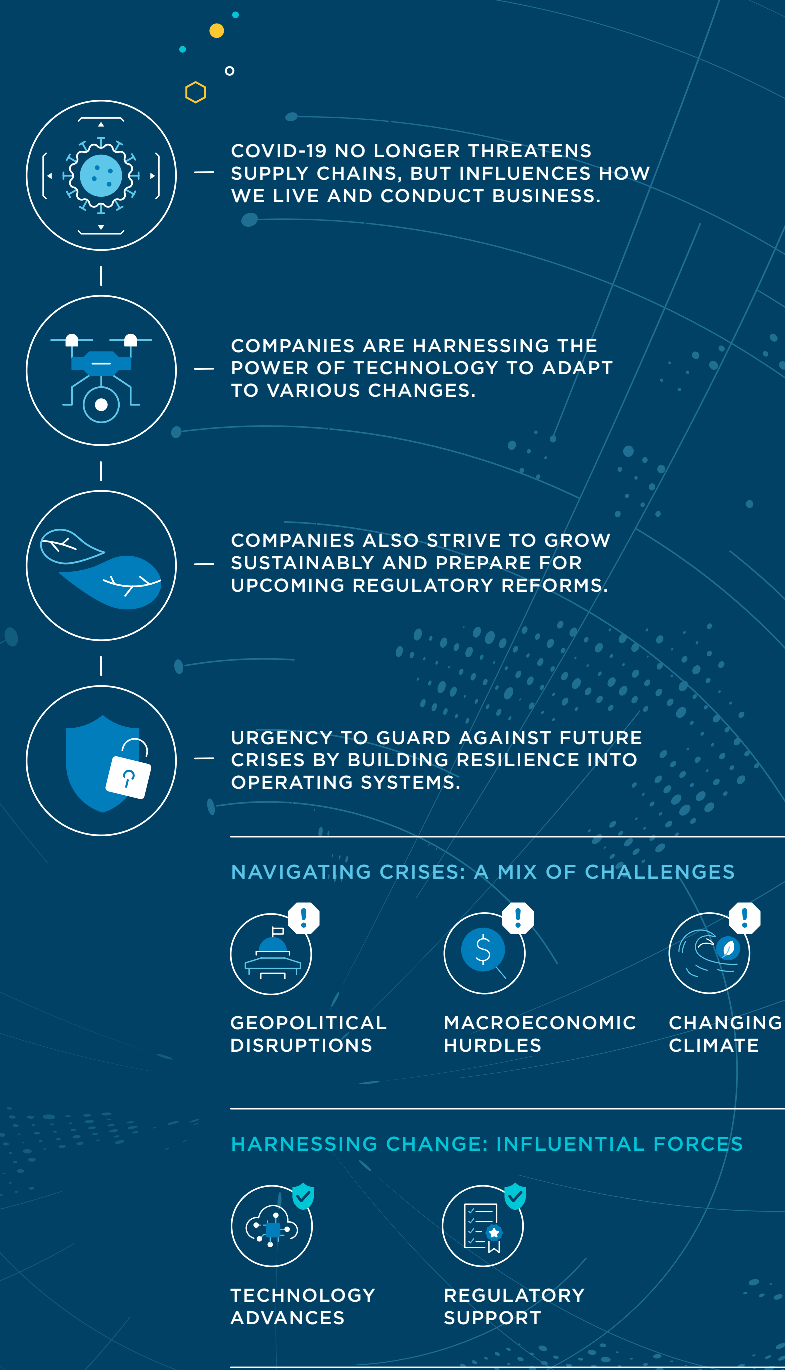
The first edition of this report, released in February 2022, noted that the pandemic would play an outsized role in influencing global supply chains in the short term, but that forces like technology and nationalistic tendencies engendered by geopolitics would have a more lasting impact.

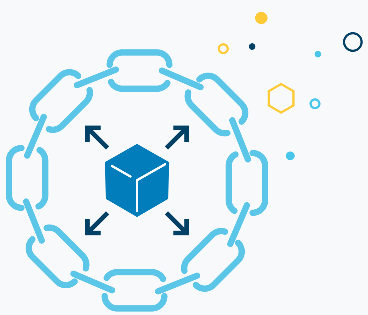
After an extended disruption, Covid-19 no longer poses a major threat to supply chains, but it echoes in the way we conduct business and run our lives. That paradigm shift extends across the many facets of running a large institution. Companies are managing their treasuries and their inventories differently, and actively harnessing the power of technology to adapt to the changes wrought by the various drivers discussed in this report. They are pushing to grow in a green and sustainable manner and preparing to comply with a slew of regulatory reforms. And, last but not least, there is a fresh sense of urgency to guard against future crises by building resilience into their operating systems and supply chains.

As this report notes, these crises could take many different forms, whether by geopolitical disruption, macroeconomic hurdles or a changing climate. However, other influential forces are also at play – such as technological advances and the commoditisation of digital tools aided by growing regulatory support – and these can convert adversity into opportunity.

Banks and fintechs are a key part of this ecosystem. Recognising their crucial role, they are stepping up their capabilities and collaborating on a range of end-to-end solutions to assist institutional clients in navigating these hurdles. While banks cannot fulfil every role, ANZ is committed to leveraging its extensive global operations and decades of expertise in financial services to identify and address gaps. We are committed to strategic relationships to deliver solutions to our clients as needed, recognising that collaboration is essential in navigating the evolving landscape.

And by doing so, we are working with our partners and clients to contribute to the ongoing development of resilient global supply chains, so that international trade can grow in a robust and sustainable manner for decades to come.





FOOTNOTES

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