With over 60% share of the total population size, spectacular economic growth in the past few decades, rising per capita income and being one of the vibrant hubs of consumerism, Asia is increasingly gaining prominence as one of the most valued assets in the eyes of the international business community. The sub-region of South East Asia has already established itself as the crucial vehicle of the world economic engine. China has proved itself as the world leader in the global supply chain, which quite incidentally though, backfired during the COVID crisis, and made the world leaders and businesses realise that its time to rethink their strategy and dependence on China.

Nevertheless, the potential of Asia lies in decrypting its Supply Chain Management to suit the need of the evolving and challenging times. Decryption for efficiency requires exploration of problems at the source. Let’s find out some of the major hindrances which are keeping the Asian supply chain integration with the global value chain.

Image source: HT

Problems in the Asian Supply Chain Management

1. Lopsided dependency on China: With 30% share in the value addition of world manufacturing, China is the forerunner in the race of Global Manufacturing leadership. The COVID crisis unveiled the worst nightmarish scenario when in the wake of lockdown in China, the manufacturing units across the globe came to a halt.

This particular event brought to fore the long subsided issue of lopsided dependence on China and the need to reconsider it in the backdrop of changed conditions. Many countries have even taken a lesson from this and shifted their focus to the domestic manufacturing industry and their strengthening.

2. Centralized Management: A few years back, the focus of the business community was to centralise the management process, especially the logistics part which can provide seamless connectivity, an environment rewarding to R&D activities, robust logistics, etc. Singapore suited these criteria best, mainly because of political support to the concept of Ease of Doing business. However, over the years, none of the South Asian nations has taken any place closer to the Singaporean model.
3. US-China Trade War: In recent years, there has been an increasing overall tendency of justifying Economic Nationalism and opposing globalisation to impose tariff and non-tariff barriers in the world. The US-China Trade war is an outcome of the same which has forced many businesses to look out for alternatives in Southeast Asia. Not only the trade war, but increasing operational & labour cost in China are one of the prime reasons for this. This has provided opportunities to players like Vietnam, Indonesia, India to emerge on the stage as one of the most promising future hubs for global businesses. However, these players are still at amateurs when compared to China as infrastructural issues are deep and wide in these countries which require huge investment and therefore, hiked production cost. Not only China has a huge pool of skilled manpower, but it also provides a huge domestic market.
4. Geopolitical upheavals: The imposition of trade sanctions by India over China post-Galwan border clash, China's claims in the South China Sea and the disputes with Southeast Asian nations over the islands, the frictions in the relations between India-Nepal & India-SriLanka, differences over the issue of insurgency and Rohingya migrant crisis between India-Myanmar are some of the major examples of regional disputes which disrupt the potential seamless trade possibilities between border nations.
5. Domestic regional connectivity: Though India, Thailand, Indonesia, Vietnam, etc. have delivered excellent results in the past decades in terms of improving their ports and transportation network, there are innumerable issues faced by shippers in expanding their reach beyond metro cities. There is a huge infrastructural investment gap which is required to translate the regions' regional connectivity into a robust & integrated system.
6. Huge diversity: The Asian economies are quite varied in terms of their consumer base, political will, per capita income, business environment, the complexity of tax structure, etc. On the one hand, we have countries like China and Singapore, with excellent innovation-centric culture and business-friendly policies while on the other hand, we

have the lowest performers on the EoDB index like Myanmar and Laos with low-skilled labour and poor infrastructure. This hinders the regional integration among Asian economies itself.

7. The dearth of skilled Supply Chain managing manpower: Asian economies are the future of the global supply chain, yet the basic requirement of those who will manage the burden of operating these chains smoothly is not met. Despite having a robust higher education system in place, there is a huge gap in the demand-supply of managers who can look after warehousing, logistics, networking, etc.
8. High working capital cost: The complex supply chains of Asian markets leads to high borrowing by small suppliers and ultimately high inventories which requires huge investment and capital cost.
9. Geographical challenges: Most of the Southeast Asian nations have island geography, spread over multiple groups of disjointed islands which makes it difficult for the transportation sector to ensure last-mile delivery, customer satisfaction or service quality.

Potential of the Asian Economies

1. The dependency on China is so ingrained and complex, emerging out of their robust infrastructure & advanced technology, supplemented by heavy investment capabilities

that drastic movement away from China will neither be feasible nor possible. However, reconsideration done in the form of research studies revealed that countries of SouthEast Asia, as well as India and Bangladesh, present ample opportunities in terms of low-cost labour as well as competitive currencies. The South Asian region, as well as Southeast Asia, offer better opportunities to reduce cost structure and diversify the supply chains. It's time to make global supply chains better suited to current circumstances and decentralize it to be ready for future global disruptions of such scale.

2. Southeast Asian economies are primarily island countries. In fact, India itself has a long coastline of over 7000 kilometres. This can be used to develop themselves as a port-led growth model (like Singapore) which requires government commitment and investment in the logistics sector.
3. Thailand, Indonesia, Malaysia and India are actively working on the Ease of Doing Business aspect by focusing on one parameter at a time. Thailand has even provided tax sops, promising the potential investors a huge margin in tax savings if they invest beyond a certain threshold. India has permitted 100% FDI in almost all the sectors and launched Sagarmala project for an emphasis on port-led development model.
4. Singapore has outperformed in the World Bank's Ease of Doing Business by grabbing the topmost position at regional as well as global level.
5. India is one of the most successful cases where changes in reorganization procedures and Political Will has improved the prospects of the country from the bottom-most performers in the index to be one of the most promising players of the South Asian region. It has a skilled workforce to look after the logistics sector. The rolling out of GST has made it almost seamless for the shipments to find warehouses in the country. Increased emphasis on digitization has made the process transparent and the efforts are continuing to make the domestic manufacturing industry self-reliant (Make-In-India, Atma Nirbhar Bharat), to attract investment in the domestic market and to make the environment of the country more business-friendly.
6. Differences in the income level of Asian economies can be utilised to take advantage of division of labour which can individually benefit each country as well as integrate the supply chain and decentralize it away from a single hub.
7. With the rapidly rising urbanisation trends in the Asian economies, an estimated 4 billion people are urban dwellers today with around 80% of it residing in emerging markets as per the Mckinsey Global Institute. This will generate demand for goods more suited to urban needs and thereby require the supply chain nodes to be flexible, fast and smooth to ensure the last-mile delivery. This will also bring 3PL (Third-Party Logistics) into the picture for ensuring logistics and transportation, instead of the current reliance on the local transportation system.

Challenges in the wake of COVID Crisis

COVID crisis led to the fall of the Asian supply chain on its face. Arguments were given about China being the source of the pandemic and China being the hub of the input source for many manufacturers, but the reality lies somewhere else. The crisis has revealed the fact that if not China, then who? There was no option to source input locally along with maintaining cost efficiency. COVID crisis has indeed brought forth many deep lying issues in the management which need to be urgently rectified.

There is, in general, low sentiments among the investors and hopelessness regarding the revival of the manufacturing sector in the near future. The Global economy, as a whole, has slid down the path of hitch and glitches where demand has plummeted and supply chains are disrupted due to lock down and restrictions. The limited progress achieved in the past few years concerning the diversification of supply chain and a movement away from China is losing grip as investors have withdrawn funds from southeast Asian nations which are facing reduced cash flow and insolvency issues. Falling consumer demand in specific sectors and disproportionate effect on industries like transport, tourism, manufacturing, etc. has cast a question mark on their sustenance. Restrictions on social gathering and workplace capacity restrictions have forced labour-intensive industries to operate at sub-optimal levels.

Way forward

Networking and route planning to reduce the logistics cost and minimize the inefficiency is the need of the hour along with investment in infrastructure. As infrastructure investment is more driven by market sentiments and political will, the former will have to take lead in the short term. Technology can immensely help in Route optimization, inventory optimization, smart solutions to shipment and logistics, and other similar nodes of the chain-like 3PL can significantly increase the cost efficiency and deliver maximum output out of a given amount of investment. Facebook Inc. investment of $5.7 billion in Reliance Jio, one of the major giants of the Indian telecom sector, amid the COVID lockdown period has already revealed the changing dynamics and sentiment in the market regarding the shift of the locus from China as well as the potential of India. It is necessary to make changes suited to the diverse requirements of the region, utilising local manpower & a focus on R&D with a rewarding culture for innovation will go a long way in making the Asian region the leader of tomorrow.

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