

Singapore Management University

## Institutional Knowledge at Singapore Management University

---

Research Collection Lee Kong Chian School Of  
Business

Lee Kong Chian School of Business

---

11-2020

### Rebuilding global supply chains from the ground Up

Victor FUNG

Chin Tiong TAN

Singapore Management University, cttan@smu.edu.sg

Follow this and additional works at: [https://ink.library.smu.edu.sg/lkcsb\\_research](https://ink.library.smu.edu.sg/lkcsb_research)



Part of the [Asian Studies Commons](#), and the [Operations and Supply Chain Management Commons](#)

---

#### Citation

FUNG, Victor and TAN, Chin Tiong. Rebuilding global supply chains from the ground Up. (2020). *Asian Management Insights*. 7, (2), 6-9.

Available at: [https://ink.library.smu.edu.sg/lkcsb\\_research/6987](https://ink.library.smu.edu.sg/lkcsb_research/6987)

This Magazine Article is brought to you for free and open access by the Lee Kong Chian School of Business at Institutional Knowledge at Singapore Management University. It has been accepted for inclusion in Research Collection Lee Kong Chian School Of Business by an authorized administrator of Institutional Knowledge at Singapore Management University. For more information, please email [cherylds@smu.edu.sg](mailto:cherylds@smu.edu.sg).



## REBUILDING GLOBAL SUPPLY CHAINS FROM THE GROUND UP

Dr Victor Fung, Group Chairman of the Fung Group, talks about how technological changes, geopolitical shifts, and Covid-19 are threatening to turn global supply chains upside down, in this interview with Tan Chin Tiong.

### What are some of the key changes taking place in global supply chains?

I believe that global supply chains have been witnessing some significant changes even before the Covid-19 pandemic. About 70-80 percent of global trade is conducted within global supply chains—they are the economic engines of the world today. Now, if you go back even just a decade, you would see that already several factors had begun impacting global supply chains. Let me start with that and take you through the changes leading up to today, as well as discuss the impact of the virus.

The first factor, and this is especially true for the last five years, is the impact of technology. It has changed

the way the consumer reacts. Earlier, global supply chains dealt with what we called the ‘push’ factor—we started with a concept, an idea or a design, then did the market testing and production, and sold it to the consumers. With the advent of technology, especially the widespread use of the cellphone, what you are seeing now is the pushback—it is the ‘pull’ instead of the ‘push’ factor. That has turned global supply chains upside down. I don’t think the entire supply chain is digitised yet; the parts that are closest to the consumer are probably more digitised than those that are closer to the creation process, like design and manufacturing. So there is still an ongoing search for an end-to-end digitised global supply chain that spans from ‘idea to consumer’.

The Covid-19 pandemic has pushed certain sectors like healthcare into prominence, and these sectors will constitute a major component of global trade going forward.

The next thing that really hit us are political changes and the resultant geopolitical shifts. This is especially evident in the last few years as we are in the midst of a U.S.-China trade conflict of major proportions, and this geopolitical change has put real pressure on supply chains. What you’re now facing is a world in which products with a ‘Made in China’ label would be subjected to punitive duties when they are exported to the U.S. and some other major countries. However, if you do the finishing of the product in, say, Vietnam, you may actually use Chinese components that could still add considerable value to the supply chain but it would be ‘Made in Vietnam’. Where these products are finished determines their country of origin, so they would be subjected to a different duty structure. Because of this geopolitical change, there has been a complete rearrangement of supply chains as companies look for appropriate countries of origin to finish their products before shipping to the final destination.

So the global supply chains have already been hit by geopolitical and technological changes, and now comes the Covid-19 pandemic—and really, this means you have to rethink the entire supply chain from the ground up. Obviously, it has pushed certain sectors like healthcare into prominence, and these sectors will constitute a major component of global trade going forward. In addition, if the consumer embraces social distancing, and thus wants to have less physical contact, that behaviour too will put a lot of pressure on the supply chain. You really have to think through how you would approach what is referred to as a ‘contactless retailing environment’, and how this would put a lot more emphasis on the e-commerce retail component as compared to the past. It has been forecast that the component of retail that is pure e-commerce could grow to as high as 30 percent over time. But even more importantly, the merging of online and offline into what we call the omnichannel experience is going to develop even faster and change how consumers make purchases.

I believe these three factors—technological developments, geopolitical shifts, and the Covid-19 pandemic—are going to result in a complete rearrangement of global supply chains.

### What is your vision of what these rearranged global supply chains might look like in the future?

I think there’s going to be a lot more talk about reshoring and economic nationalism, which is the idea that countries need to be very concerned about certain types of production that they would like to control domestically. The extreme scenario that will result is that if all nations were to do this, then each one becomes an island. This would be a disastrous scenario, but I don’t think it will happen. It is very understandable that there are certain essential goods that a sovereign country must control within its own borders. In fact, this has always been so for some areas like defence. Now with the pandemic, these countries would also need to think about ensuring that supplies of healthcare items, like personal protection equipment, are adequate. I can also extend this idea of security to food or energy supply, but my contention here is that there would be a limit to this. It does not mean that once the government mandates that these few essential goods are to be controlled nationally, then all these products must be produced domestically. So I think there are also other factors to consider—cost, availability, product variety, etc. So while I concede that more products will be mandated as essential, or, shall we say, nationalised, not everything will be so. In fact, I would argue that for some sectors, globalisation would increase further. For instance, even before the geopolitical issues and the Covid-19 pandemic sprang up, some were already talking about a ‘China plus one’ policy—they were trying to hedge their bets by diversifying their sources of supply.

And that leads me to my final point. Fundamentally, global supply chains will move towards what I call ‘agility and resilience’. You don’t know when the next surprise is going to come. Even after this pandemic ends, we don’t know when a new virus will emerge and hit us, so the entire supply chain needs to be more resilient and robust. For about a decade, the world has focused only on greater efficiency, squeezing every last cent out of the supply chain, and perhaps forgetting the need for resilience in the process. It is almost like running a stock portfolio. If I pick two stocks and they happen to do well, I don’t need a portfolio manager to help me with a diversified portfolio. But when there is an external shock, I have a problem. What the world has now learnt is that you need a diversified portfolio, for which you need to pay a small premium, and there is a trade-off between efficiency

and resilience when building supply chains. That, to me, is the major change that is going to take place.

**It is believed that Asian consumers will dominate the global consumer market in the next five to 10 years. How should global supply chains prepare for this development?**

Let me first try to put this question in context. If you look at global consumption historically, in 1984, about 83 percent of the world's total consumption was from the Organisation for Economic Cooperation and Development (OECD) countries, mostly in Europe and the United States, while the rest of the world consumed 17 percent. With the development of the rest of the world outside the OECD, primarily in Asia—China, ASEAN, India, and the developing economies—this consumption has increased to about 35 percent today. Most forecasters expect that by the middle of the century, and perhaps as early as 2040, the OECD countries will account for less than 50 percent of global consumption. Global consumption will shift primarily towards Asia. In fact, McKinsey has projected that by 2040, there would be three billion middle-class consumers in Asia, up from one billion today.

So, as a global marketer, you have to ask, “Where are my customers?” As the third-generation leader of global supply chain firm Li & Fung, I can tell you that our company has been sourcing from the East and selling to the West for over a hundred years because our customers were in the U.S. and Europe. I believe there will be a fundamental shift away from that direction over the next 10 to 20 years. So while the West will remain important for the foreseeable future, we now have to take into account the consumption patterns of the new consumers. What do they want to buy? Can I just channel the same products from my global production platform? More importantly, how do I gain access to these new consumers? How are they distributed across Asia? One of the major differences that I can see is that the answers will be different in China, India, and ASEAN. I don't think Asia will go through the same level of consolidation that we have seen in the West. For example, the U.S. market is really quite consolidated, with Walmart alone accounting for around four percent of the market. However, to reach the Asian consumer, you may need to deal with hundreds of thousands, or even millions of small- and medium-sized enterprises—so it is not a business-to-business (B2B) type of situation. It is a B-to-small-B-to-consumer situation, and

you have to think about new forms of distribution to reach these consumers, perhaps through technology.

We need to start thinking about sourcing from almost everywhere and selling everywhere. This gives rise to a more complex world, and the whole supply chain will become more agile. It will be buffeted by many forces that were really quite stable in the past, such as a volatile geopolitical environment and new technologies like 5G and blockchain that will now become prominent. Also, we may be hit repeatedly by viruses because of the amount of gene mixing that's happening in the world today. Therefore we need to be aware that whenever events like this happen, everything gets topsy-turvy.

It is not easy to say where my consumers will be eventually, but I think we are now seeing a major transformation of a distributed supply chain morphing into manufacturing everywhere and selling everywhere. While it is complex, it can be put together more easily with the help of technology.

**Given the expectation that reshoring will occur for many critical items, what would be the impact of this on global logistics hubs like Singapore and Rotterdam?**

Reshoring will happen to control the supply of certain essential products. It will also happen sometimes because of protectionist and nationalistic tendencies that are unrelated to business trends. But a lot of reshoring is also driven by the consumer. Let me give you an example. American consumers—thanks to companies like Amazon—are getting conditioned to ordering online and getting their purchases delivered within 24 to 48 hours. Given this scenario, there is no way you can manufacture far away unless you are prepared to stockpile huge quantities. Therefore this drives the need to manufacture closer to the consumer, and makes the consumer one of the major drivers of reshoring. And Chinese consumers are no different. They too will order through, say, Taobao and JD and expect delivery within

---

It is not easy to say where my consumers will be eventually, but I think we are now seeing a major transformation of a distributed supply chain morphing into manufacturing everywhere and selling everywhere.

---

48 hours. However, I don't think everything can be reshored. The parts that are non-essential will have to remain globalised. Indeed, I am arguing that if you want more resilience in those parts of the supply chain, you will need more diversification, and this will result in more globalisation, so centres like Singapore, Hong Kong, and Rotterdam will continue to remain relevant.

In terms of the intermediation and financing of trade, a deeper question to ask would be about the logistics set-up. On the one hand, you need speed, but on the other hand, given the impact of the virus, there are going to be some changes in the physical movement of goods going forward. So I think we have now permanently shifted to a new normal. In fact, I would almost call it a reconstruction of global supply chains from the ground up.

**As an experienced leader who has been through several crises, what advice would you have for managers as well as the youth entering the workforce today?**

My first piece of advice is related to reaction time. You really need to be well-prepared and have a framework that you can use to handle almost any unforeseen changes.

Second is to understand the impact that major forces can have on everything that you do. I talked about technology, geopolitics, and the virus, and you really need to consider their dramatic impact and how this will affect the whole enterprise. It is all about resilience and agility. I used these words for the supply chain, but it is also true for people in the organisation. People must have the resilience to stand up to the possibility of change day after day, and for that, they will need to be flexible.

I think the most essential skill to have now is that of crisis management, since it is almost futile trying to predict what is going to happen. You just have to make sure that the people and the organisation can react quickly to almost any emergency. Obviously, you have to keep in mind some long-term goals. However, in order to get there, you have to be very agile. It is almost counter-productive if you draw up a traditional five-year plan and hope that everything will work according to plan.

---

On the one hand, you need speed, but on the other hand, given the impact of the virus, there are going to be some changes in the physical movement of goods going forward.

---

*Dr Victor Fung*  
is Group Chairman of the Fung Group

*Professor Tan Chin Tiong*  
is Professor of Marketing and Senior Advisor to SMU President at Singapore Management University