

COVID-19: An update since our last note

Living in and adapting to a fluid environment seems to be the new normal. This week's focus is on how the pandemic has impacted supply chains across the globe.

The COVID-19 pandemic has highlighted vulnerabilities in how we source and supply goods across the globe. Both governments and companies are taking steps to enhance the resilience and flexibility of supply chains and to ensure we are better positioned to address the impact of future pandemics and disasters.

The fragility of global supply chains has been exposed

Globalisation has given rise to highly integrated supply chains that span the globe. Materials, intermediate goods and finished products are often sourced thousands of kilometres from where they are used and then shipped around the globe. While most experts agree that panic buying in the early stages of the pandemic was unnecessary, bare supermarket shelves across the globe made the fragility of the supply chains we rely on visible to many of us. The great global toilet paper rush of 2020 will remain a topic of conversation for many years to come.

When the outbreak started, China closed many of its factories in a bid to contain the spread of the virus. Soon, supply chains across the globe were disrupted as the flow of goods across the globe started drying up. Many businesses that thought their supply chains were diversified because they dealt with different suppliers, discovered that these suppliers were in fact in close geographic proximity and all were impacted simultaneously by the pandemic.



Production of key items has been concentrated

The global scramble to secure personal protective equipment (PPE) most clearly illustrates the downside of highly integrated supply chains. Before the pandemic, China manufactured about half of the world's face masks. By April 2020, that figure had shifted as high as 85%. China also manufactures more than half of the world's meltblown – the filter element of many medical grade face masks. In an effort to ensure sufficient material to supply the domestic demand for masks, the Chinese government had already banned the export of meltblown as early as February this year. We saw similar protectionist tendencies raising their heads as governments started to scramble to secure ventilators. Questionable behaviour in the drive to secure medical equipment even led to the USA being accused of 'modern day piracy'. However, the pandemic has made it clear that countries need to consider their supply of essential medical goods.



A fresh look at supply chains

With much of the world's PPE production having been outsourced to other parts of the world, many nations are now asking if globalisation had gone too far. Countries like the United Kingdom have already begun analysing their reliance on other countries for essential goods, and are considering how best to prevent being put in a similar position in the future. Similarly, many companies have realised their supply chains are not as diversified or secure as they may have thought and are reassessing how they do business.



Many of the past drivers of globalisation have been disrupted

In the past, cheaper labour available in emerging markets was a large motivator for shifting global production around the globe. However, with advances in automation, artificial intelligence and additive manufacturing, many of the drivers that contributed to offshoring large parts of the production chain may no longer be as important as they were in the past. In addition, the pandemic has meant that the resilience and flexibility of supply chains are becoming key considerations for companies, and finding the lowest-cost manufacturer may no longer be the primary driver when it comes to sourcing items.



Africa moves to secure its own interests

The pandemic has highlighted that poorer and less developed nations are at a disadvantage when it comes to sourcing PPE, ventilators and other medical equipment. Recently, President Cyril Ramaphosa, in his capacity as Chairperson of the African Union, launched the Africa Medical Supplies Platform to help Africa better its position and improve its ability to address the COVID-19 pandemic. The platform aims to source PPE, testing kits and other medical equipment more efficiently, and also gives preference to African manufacturers and suppliers. The platform has already reported success by reducing the cost of N95 medical masks from up to US\$30 per mask, to US\$2 each. By promoting intra-African trade, the platform can potentially help to improve economic activity and trade on the continent, and support African countries as they aim to gear their economies for a post-pandemic world.



Managing the downside of China's dominance as the world's factory

The COVID-19 pandemic has caused us to take note of the hidden dangers of a highly connected global economy and supply chains. Before the onset of the COVID-19 pandemic, trade tensions between the USA and China had caused some companies to consider diversifying their production chains. This had enabled some countries like Vietnam and Mexico to grow their share of consumer goods and technology, media and telecoms (TMT) exports. However, China still accounts for 60% of global consumer goods exports and 41% of TMT exports. While diversifying supply chains may be high on everyone's agenda right now, sourcing the necessary items from geographically diverse suppliers may not be that easy in practice. However, we can expect that countries and companies will increasingly take measures to ensure their self-reliance and self-sufficiency for critical items into the future.

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