



# WHAT WILL BECOME OF GLOBAL SUPPLY CHAINS?

As we sit in the middle of the Covid pandemic, it is useful to think about aspects of the world that will be permanently altered due to the virus, with most of us immediately thinking of technology, be it e-commerce and Zoom / MS Team calls that are around now and will be in the future. But the one area that we don't automatically think about is global supply chains and I would argue that this is where we will see some of the biggest changes going forward.

Before we delve into these changes, I think we need to go back a step and recognise that globalisation has been receding for a couple of years already, led by rising geopolitical tensions between US and China; Korea and Japan and the UK and Europe. These tensions also arose as increasing global income inequalities led to the rise of populist parties, namely the likes of Trump and Boris Johnson, whose manifestos are all about putting their people first, i.e. bringing jobs home.

To remind our readers, this confluence of events was pre-Covid and I think Carmen Reinhart said it best when she spoke to Bloomberg recently: "Without being melodramatic, Covid-19 is like the last nail in the coffin of globalization. The 2008-2009 crisis gave globalization a big hit, as did Brexit, as did the U.S. China trade war, but Covid is taking it to a new level."

As some in the press and on blog posts have been saying, Covid has added a petrol station of fuel to a fire that was already burning. Global supply chains were being cut back due to rising political tensions and nationalisation, but physically shutting down borders, as we have now witnessed, has led to company management learning some very hard lessons. I listened to a very thought provoking podcast on this very subject at the 73rd Annual CFA conference by a Harvard lecturer and author Vikram Mansharamani (@mansharamani) who showed this slide below highlighting some news headlines of global multinationals, in which they bewailed their global supply chains and the problems this was causing for their organisations.

## Global multinationals and their supply chain struggles

**Forbes**  
P&G Says 17,600 Products Could Be Affected By Coronavirus In China, Highlighting Supply Chain Risk

**CNBC**  
Coronavirus outbreak in China spurs supply chain shifts that began during trade war

**THE STRAITS TIMES**  
Coronavirus exposes cracks in carmakers' Chinese supply chains

**RESTAURANT DIVE**  
McDonald's primes supply chain for potential meat shortage

**FP**  
Blindsided on the Supply Side

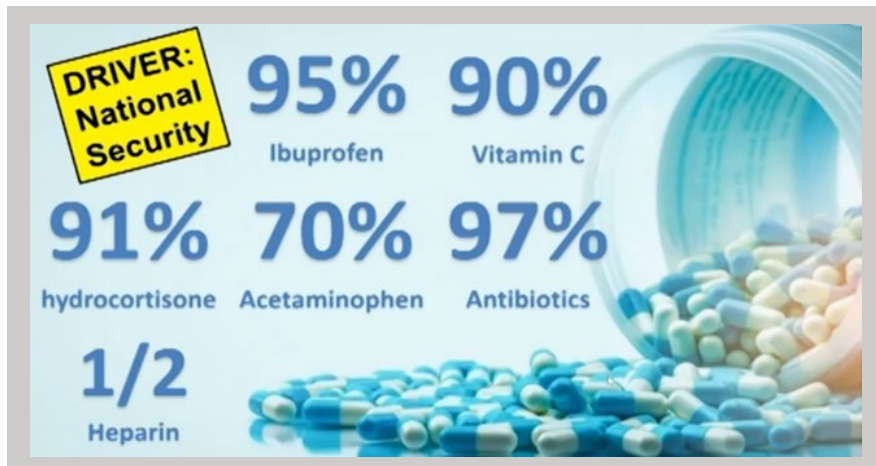
**Forbes**  
Microsoft Warning Is A Harbinger Of Coronavirus Impact On Business And The Economy

**The New York Times** | <https://nyti.ms/2KZh2mo>

**Every Part of the Supply Chain Can Be Attacked**

His view, which is shared by a number of other strategists, is that we are going to see permanent changes to the global supply chain landscape. He imagines a world where we move from “Just in time” to “Just in case” - in other words, we could see stock levels rising, as companies don’t want to find they are out of stock, especially when supplies come from far away places. Secondly, he thinks we could move away from cost being the only factor at play, to one of resilience. What he means by that is, not relying on supply chains being dominated by a few very large operators but spread out in different regions and even having a number of operations closer to home – the analogy of not having all your eggs in one basket. The third factor at play will be the movement away from efficiency to security, with food security being an obvious one, but healthcare, as this crisis has shown, is just as important. One only has to see this slide below to realise how dependent the US has become on China and with relations now souring this is unlikely to be the case going forward.

#### US reliance on medical imports from China



Source: Vikram Mansharamani

For a whole host of reasons, global supply chains are not going to be the same going forward, but there are some other big secular themes at play, which are not Covid related, that are also going to alter the playing field. The biggest factor is Technology, which thanks to innovation is allowing for rising productivity levels, but also leads to less inputs per outputs which leads to less demand for labour, especially cheap labour. Automation is going to take away a lot of jobs from low cost emerging markets, which was happening pre-Covid, but Covid has sped this up. This is best said by Arundhati Roy who had the following to say in the FT recently:

What will become of the surplus working class — the bulk of the world’s population — not just in India, but worldwide? Who is going to be held accountable for this apocalypse? Not a virus, I hope. We need Covid Trials. In an international court. At the very least. That’s my post-lockdown reverie.

Source: Financial Times

Automation and the bringing of jobs back to developed markets will have huge implications for emerging markets, but that is a discussion for another article.

The other big structural change is cheap oil due to shale, falling alternative energy prices and battery storage which will lead to companies operating where this is cheapest and again on this score the US comes up trumps (excuse the pun).

No-one ever knows how the future will unfold, but when one weighs up these factors it is hard to imagine a world where the global supply chains are not negatively impacted by an increasingly polarised and fractured world. Covid has only exacerbated a trend that was already in place and I leave you with this thought: Would you rush to buy “Made in China” in the future?



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