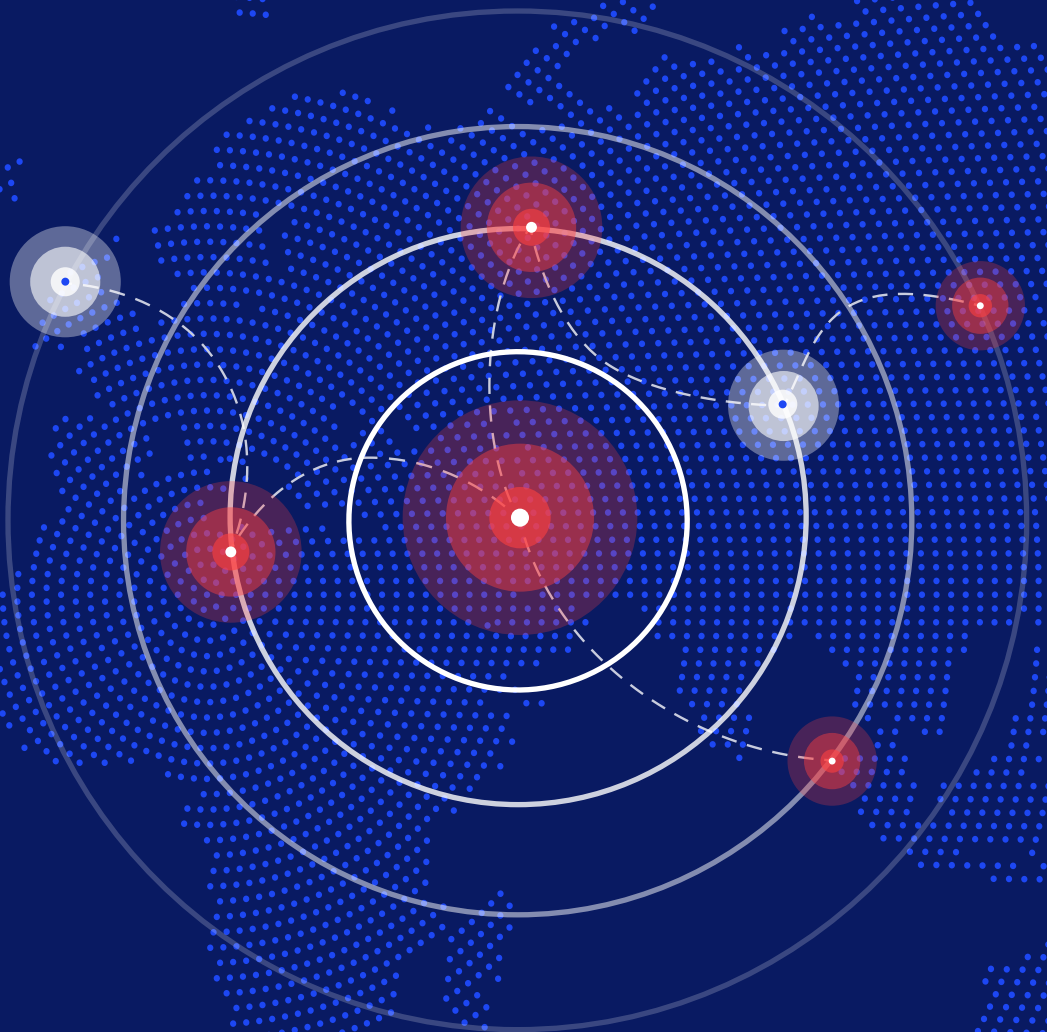




# The Perfect Storm: COVID-19, Global Supply Chain Fragility, and the Reglobalization of the World



# Summary

Henry Kissinger

*The pandemic will forever  
alter the world order.*



- The pandemic has exposed significant vulnerabilities in a hyper-globalized system, largely the complexity, opacity, and insecurity of global supply chains. Shifting geopolitics and unprecedented economic and public health disruptions are further accelerating dramatic structural shifts and a reglobalized world system.
- Coined by the Bank of England as the biggest economic shock since 1706, global GDP forecasts dropped from 2.4% in February to -4% in March, while international trade is expected to drop between 13-32%, with the United States and Asia being the hardest hit regions.
- COVID-19 has exposed the underlying fragility of global supply chains. Our opaque, insecure, and highly concentrated global supply chains are a direct result of just-in-time production, a focus on efficiency over resiliency, and China's expanded position as the supplier to the world over the last two decades.
- Forward-leaning enterprises and governments alike are already re-prioritizing resilience and agility over the optimization that dominated for decades.
- Global supply chains are transforming, as enterprises explore a new combination of onshoring, nearshoring, and reshoring with the aim to gain agility, visibility, and alternative sourcing to achieve greater resiliency in a reglobalized world system.

# Introduction

COVID-19 continues to inflict public health and economic devastation. In addition, the pandemic has exposed significant vulnerabilities in a hyper-globalized system, largely the complexity, opacity, and insecurity of global supply chains. Concentration risks – with bottlenecks and single sources of failure – have proven detrimental across virtually every industry. From the well-documented food distribution and personal protective equipment disruptions, to manufacturing and defense supply chains, the fragility of modern supply chains has now become both a top C-suite and consumer concern.

With so much growing uncertainty, one thing is certain; the pandemic will lead to permanent shifts in political and economic power in ways that are only scratching the surface now. As Henry Kissinger [\*noted\*](#), ‘the pandemic will forever alter the world order.’ Before addressing what to expect with the new normal, it is important to first understand the growth, and growing fragility, of global supply chains.

## The Co-evolution of Supply Chains & Globalization

While there were previous eras of globalization, today’s inter-connected web has the most direct roots to the system that evolved post-World War II. In the 1950s and 60s, the advent of computers and containers [\*ushered\*](#) in modern logistics and warehouse management. For a time the dominant approach to global logistics focused on transportation and physical distribution dominated until the Japanese model of lean distribution [\*took off\*](#) in the 1980s. ‘Just-in-time delivery’ became the new guiding principle, with a focus on optimization and efficiency. It also paved the way for specialization and components sourced from many locations and suppliers. The end of the Cold War sparked manufacturing shifts to Asia, but China’s role was distinctly different than it is today.

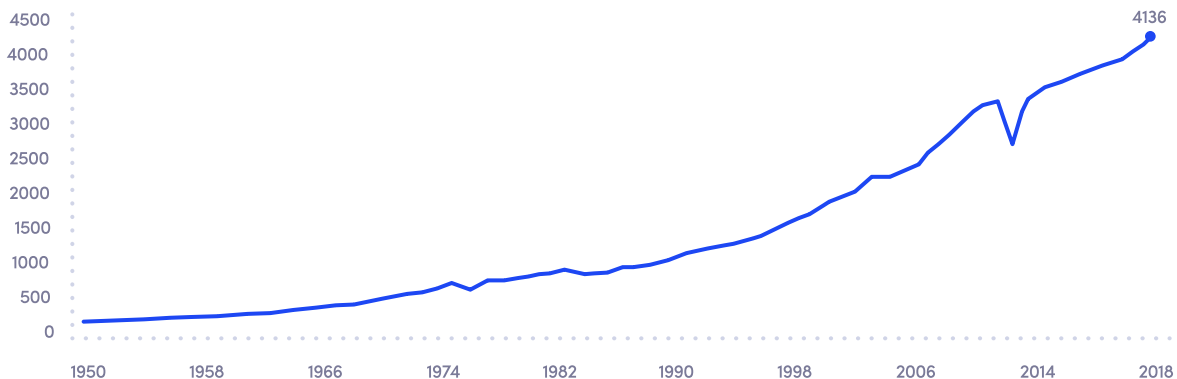
China joined the World Trade Organization in 2001 just as the internet was transforming global trade. The country's GDP [grew](#) from \$1.7 trillion in 2003 to nearly \$14 trillion last year, with its share of global trade jumping from 5.3% to 12.8% during the same time frame. Over the last two decades, China has solidified its role as 'sender of last resort' and the supplier to the world as both a major manufacturing hub and a significant market.

During this time, emerging technologies such as the internet of things (IoT), big data analytics, and robotic process automation fed the insatiable demand for additional optimization and efficiency. These technologies also introduced new attack vectors. Supply chain attacks [continue to grow](#) year over year, as a target's suppliers become an entry-point to their enterprise network, with intellectual property theft correspondingly skyrocketing.

As seen in the graph below, global trade [grew](#) 4136% between 1950 and 2018, with extraordinary growth over the last few decades. This growth, coupled with significant concentration in China, increased complexity, digital insecurity, and a focus on optimization, fostered extremely fragile global supply chains. It also meant that enterprises increasingly lacked visibility over their entire supply chain ecosystem. They may know their first tier suppliers, but they lacked visibility over their second, third and fourth tier suppliers – those highly specialized producers of niche components.

**Evolution of world trade, 1950 - 2018**

Volume index, 100 = 1950



Over time, these interconnected webs have become increasingly susceptible to shocks, as cascading effects ripple throughout the entire global supply chain ecosystem. The 2008 economic crisis is visible in the graph on page 4; as we'll discuss next, it simply does not compare to the current economic devastation and supply chain disruptions wrought by COVID-19.

## The Biggest Shock Since 1706

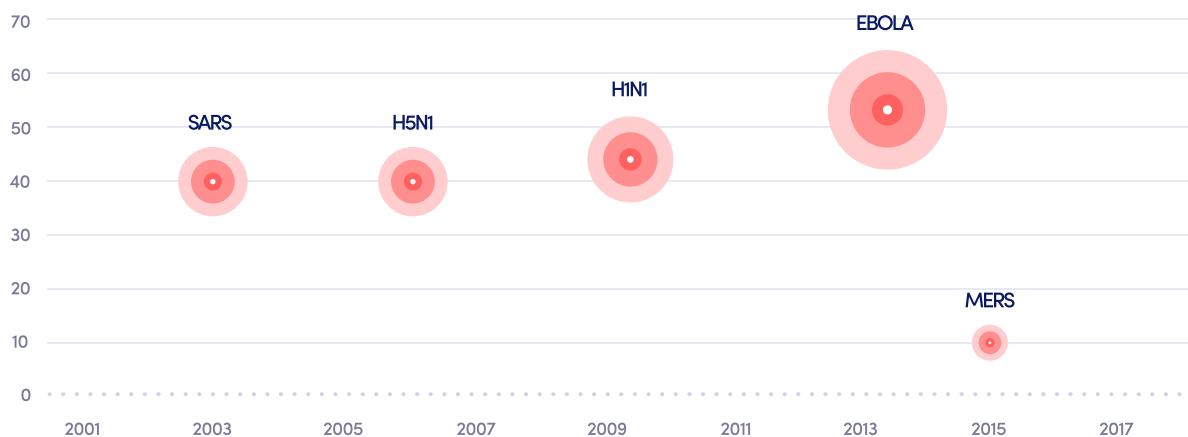
When living through history, it is often difficult to fully comprehend tectonic shifts while they are underway. A quick look at recent economic data – in comparison to other significant events – drives home the unprecedented nature of the pandemic. On May 7, the Bank of England [predicted](#) a 25% second quarter GDP decline, and a 14% decline for 2020, making it their worst contraction since 1706. By comparison, British GDP decline was 4.2% during the 2008 Great Recession.

The numbers are not better globally, as global economic activity ground to a halt in March, dropping 30–35% in a few weeks. Global GDP forecasts dropped from a 2.4% increase in February to –4% in March, with advanced economies expected to drop 6% GDP and emerging markets hit with [significant capital outflows](#), already dubbed the COVID-19 Cliff. Unemployment numbers quickly surpassed the Great Recession and are tragically approaching Great Depression levels. The April jobs report [detailed](#) a massive jump in U.S. unemployment, at 14.7%, as over 20 million people suddenly lost their jobs. This one-month shift is double that during the entire 2007–09 Great Recession.

Compared to past pandemics, COVID-19 is yet again unprecedented. As the [chart](#) below illustrates, the cost of modern pandemics has largely been measured in the billions; COVID-19 cost projections range from [\\$4 trillion](#) or 5% of global GDP, to almost [\\$9 trillion](#), and [\\$82 trillion](#) over five years. Similarly, global infection cases of recent pandemics have largely been [measured](#) in the single digit or tens of thousands, with the H1N1 virus the most widespread at over almost 300,000 deaths. There are 6.2 million [confirmed](#) cases of COVID-19 as of June 1, and over 373,000 deaths.

### Costs of selected epidemics 2011–2017

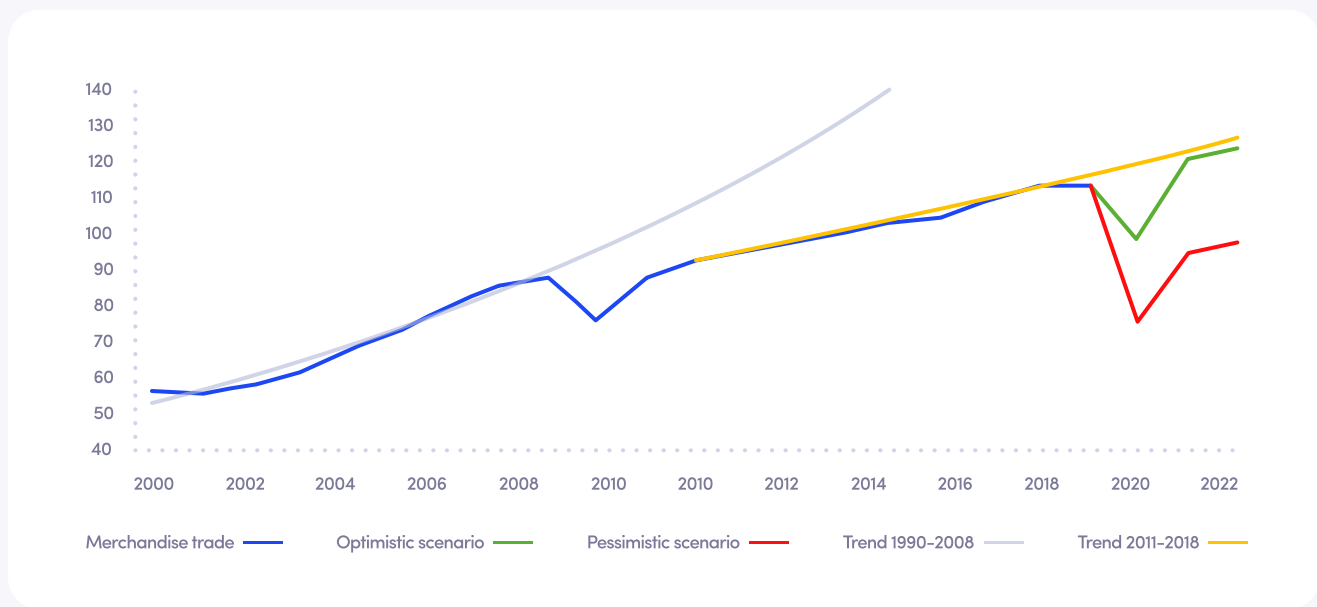
US\$ billions



In short, this time is different.

# Supply Chain Fragility & Strategic Realignment

When an already-fragile system experiences a shock of this size, the impact propagates quickly with an equal number of predictable and unforeseeable impacts. The [chart](#) below depicts the range of scenarios for global drops in trade, ranging from 13-32%. Trade is expected to fall the steepest in those industries with the most complex global supply chains, including electronics and automotive products. The U.S. and Asia are expected to be the hardest hit regions.

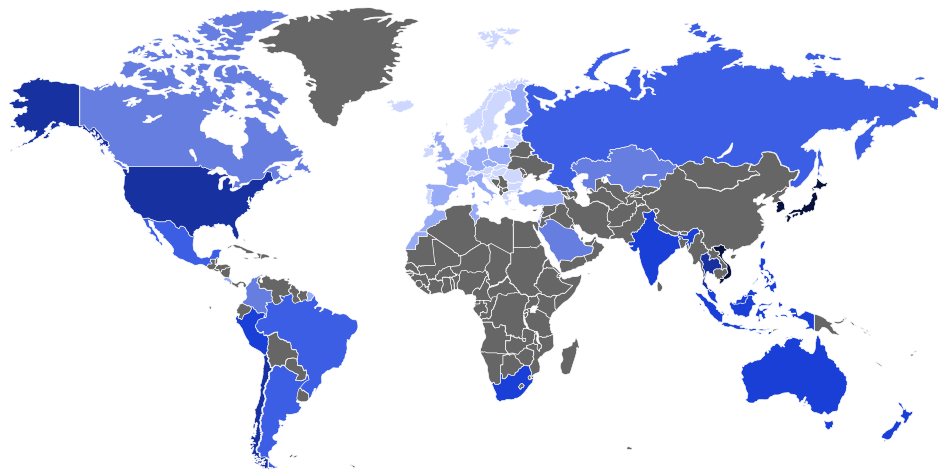
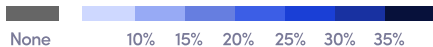


The complexity, opacity, insecurity, and concentration risks of the global supply chain are now front and center, from our grocery stores to our gas tanks to the defense industrial base. According to a March [survey](#), 75% of US companies experienced some form of supply chain disruption from COVID, as the majority lack the visibility or agility to quickly restart them. With significant disruptions stemming from concentrated risks in China, 44% do not have a plan in place to manage those disruptions. Almost [two-thirds](#) of supply chain leaders believe they lack adequate resources to meet future challenges, with the growing complexity of supply chains listed as the largest internal challenge they face.

The Great Lockdown has prompted a great awakening across enterprises coming to terms with the significant fragility across their supply chains. Concentration risks, especially with geographic dependencies (including on China as shown in the [map](#) below) are now front and center. Although the ongoing trade conflict and tariffs already sparked some companies to [reshore](#) from China to other parts of Asia, COVID-19 is motivating companies to achieve greater diversity in supplier locations. Two-thirds of North American manufacturers are likely to reshore as a result of the pandemic.

### How Coronavirus Can Infect Global Supply Chains

Share of all imports of intermediate products coming from China



The impact is being felt across many industries. In the shipping and freight industry, 42% of survey respondents [noted](#) they will change global supply chains post-pandemic, and less than 2% claim that COVID-19 has had no impact on their supply chains. The same story emerges in [pharmaceuticals](#), where over 90% of respondents said COVID-19 poses a risk to their imports/exports, while 20% cite the pandemic's impact on their supply chain as their number one concern. With oil and gas prices dropping to record lows and global food supply disruptions, the pandemic is forcing old assumptions and conventional wisdom to be cast aside, and a new debate about what the post-pandemic new normal will look like.



# Reglobalization: Think Local and Global

Discussions of the new normal largely fall into two extremes, each of which casts starkly distinct predictions for the future of global supply chains. First, there are some who see a [normalization](#) of trade flows and dependencies post-pandemic. This worldview holds that while there may be some slight changes, the current shocks will eventually recalibrate back to pre-pandemic levels due to the strong forces of hyperglobalization. On the other hand, others point to the isolationism and protectionism that was on the rise pre-COVID 19, and expect that to become the new norm, permanently [ending](#) the past 75 years of globalization and interdependence.

Both of these miss the nuances of the significant shifts underway. Globalization will be transformed, that much is certain, but to paraphrase Mark Twain, the rumors of globalization's death are greatly exaggerated. Even following the bubonic plague – which [spread](#) along the Old Silk Road – people still sought to trade and seek their fortunes. The same is true now, but with shifting geopolitical winds and global supply chain fragility exposed, globalization is in for a big overhaul.

First, the need for greater resiliency and agility will foster supply chain shifts away from bottle necks and concentration dependencies. Onshoring, near shoring, and reshoring will lead to new hubs, but the old ones will not simply disappear. The role of [trust](#) in governments will become even more pronounced, as supply chain strategy will be increasingly impacted by governments' decisions and international relations. In fact, this is already underway, as many companies explored decoupling from China even before COVID-19, and governments sought incentives to encourage the reshoring. For instance, China recently [threatened](#) to stop importing wine from Australia due to their government's insistence on an investigation into the origins of the pandemic. At the same time, Japan is [devoting](#) billions of dollars to help their multinational corporations decouple from China.

Of course, with China and Asia impacted first by the pandemic, Asia is also leading the way in reopening their economy. This first mover advantage will ensure old supply chain hubs persist, but it will not halt a move to regionalism or realigned global coordination. This is happening at the industry level: [59% of some automotive parts](#) are already intra-regionally sourced. The United Kingdom recently [introduced](#) a 10-country pact to coordinate supply chains in 5G and other emerging tech to increase resiliency, visibility, and security.

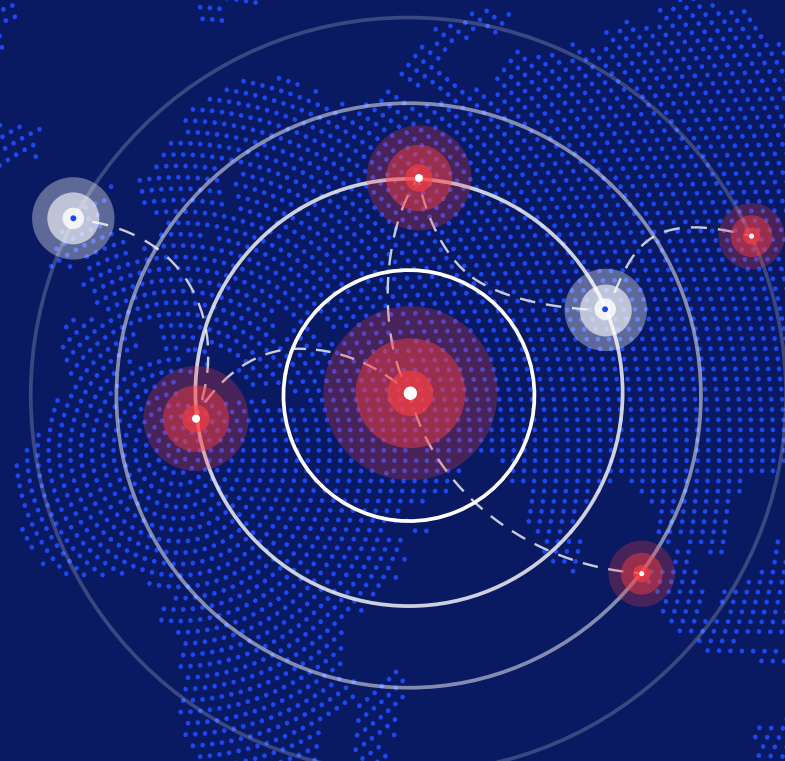
As economies reopen, trade and travel corridors also are being created. These [bubbles](#) include Estonia, Latvia, and Lithuania (which opened on May 15th), while Australia and New Zealand are [discussing](#) a quarantine-free zone. Coordinated economic reopening is also occurring at the [sub-national](#) level in the United States, as states from coast to coast seek to coordinate their economies and supply chains.

All of these regional pacts, coupled with a growing demand for resiliency and self-sufficiency for critical goods, such as PPE and hardware, portends a much deeper global restructuring. Both the enormous supply chain disruptions sparked by COVID-19, coupled with the digital revolution and geopolitical shifts, are redefining global supply chains and the new world order. Forward-leaning enterprises and governments alike are already prioritizing resilience and agility over the optimization that dominated for decades and crafting the foundation for the new normal. This emerging new order will impact all aspects of our lives, with decisions made now impacting the long-term resiliency of economies, including their ability to withstand future shocks.

# About Interos

Interos protects customers' brands and operations from risk in their extended supply chains and business relationships. The first AI-powered platform for eliminating multi-party, multi-factor risk from 3rd-, 4th- to nth- tier parties, Interos automates discovery, detection, and response to financial, ethical, geographic, cyber, and relationship risk.

Designed by experts and leveraging the company's 15 years of experience in managing the world's most complicated supply chains, Interos provides real-time risk management for the largest commercial brands in manufacturing, financial services, and aerospace and defense.



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