



Centre for Air Power Studies (CAPS)

Forum for National Security Studies (FNSS)

12/20

CORONAVIRUS UNCOVERS THE RELIANCE OF GLOBAL SUPPLY CHAINS ON CHINA

Ishka Yadav

Research Associate, CAPS

Keywords: Corona Virus, COVID-19, China, Supply chain vulnerability

The risk sourcing provided to supply chains no more focused around the tariffs and trade war as it was for the past two years. Instead, the veil of COVID-19 covered the global supply chains. The outbreak of the coronavirus in Wuhan in December 2019 drew attention to the weaknesses of China as the paramount global producer. Thousands were infected, employees worked from home, and quarantine arrangements came into effect. Manufacturing was cut back in China, which sent importers struggling to find alternate suppliers. The global pandemic stressed on a matter related to supply chains as businesses accepted globalization and sought low-cost labour. A pause in products from Chinese industries was inescapable, given the level of reliance on Wuhan alone.

Steven Bowen, CEO of Maine Pointe (a consultancy of global supply chain and operations), stated that *"We're too dependent on China alone."* The U.S.-China trade war incited many companies to broaden their supply chains

overseas. Still, production firms and supply chains have immense sources in there, which poses a huge challenge for business industries to depart when risks of tariffs and a virus outbreak arise.¹ The extent of shock from coronavirus to the global supply chains has been far more intense than the U.S.-China trade war. As per the report of Dun & Bradstreet, a business intelligence firm, 51,000 industries around the world have one or more lead suppliers in Wuhan and at least 5 million industries globally in the affected region. The data highlights that the problem of dependency is just not about the Southeast Asian countries being dependent on Chinese suppliers but the issue is much more widespread.²

Another study by the Institute for Supply Management apprehends the magnitude of the virus transmission for global producers: 57 percent of business firms are facing unpredictable delivery due to heavy reliance on China-sourced items, while more than 44 percent surveyed do not have a preventive measure to

tackle the supply disorder.³ For instance, Apple, a multinational technology giant, revised its revenue guidelines. Around five million jobs in China depend on Apple production alone, and the company indicated revenue warning due to slower than anticipated movement at its China-based production sites.⁴ The spread of COVID19 has made one thing evident: China's function in the global supply chain will not change. Core industries, specifically electronics, automobiles, medical equipment, pharmaceuticals, and consumer products have been affected. This is a consequence of China being a global production midpoint over the past two decades. Addressing the risk posed by over-dependence on China, many original equipment manufacturers (OEMs) have been struggling to look for alternative measures by venturing to re-tool their productions to make completely different products.⁵ Japan allocated US\$2.2 billion in incentives to support its producers to move production out of China.⁶

But the reality is that even those firms that have assorted their production are facing difficulty in breaking free from China's influence. For instance, due to an increase in tariffs from the U.S.- China trade war, Nintendo, a Japanese video game company, moved its gaming console to Vietnam in 2019. Still, there is a lack of Switch consoles because of a shortage of crucial parts flowing to the Vietnamese industries as the pandemic halted manufacturing by the Chinese exporters of components of gaming.⁷ A poll of

119 firms by the Beijing-based American Chamber of Commerce in China identified that the proportion of responders are experiencing up to 50 percent increased revenue decline. American firms in China are still gambling on the local consumer, even if disrupted supplies are pulling down the revenues.⁸

As importers struggle to find solutions for 'Black Swan' events, the resilience of global supply chains against China's products and high-tech consumer market is the pressure that they will have to navigate.⁹ To protect the supply chains there needs to be a risk-based assessment process that monitors the different types of risks. A firm should consider building resilient policies and recognize geographically diverse exporters to assist during the times of emergency. The result, however, is unlikely to show zero dependency on China.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

Notes

¹ Shefali Kapadia, "From Section 301 to COVID-19: How a volatile China changed supply chains," *Supply Chain Dive*, March 31, 2020 Available on <https://www.supplychaindive.com/news/coronavirus-china-tariff-trade-supply-chains/574702/> Accessed on April 28, 2020

² "Business Impact of the Coronavirus," *Dun & Bradstreet*, Available on https://www.dnb.com/content/dam/english/economic-and-industry-insight/DNB_Business_Impact_of_the_Coronavirus_US.pdf Accessed April 29, 2020

³ "COVID-19 Survey: Impacts On Global Supply Chains," *Institute for Supply Management*, March 11, 2020 Available on

<https://www.instituteforsupplymanagement.org/news/NewsRoomDetail.cfm?ItemNumber=31171&SSO=1> Accessed on April 29, 2020

⁴ “Investor update on quarterly guidance,” *Apple Inc.* February 17, 2020 Available on <https://www.apple.com/newsroom/2020/02/investor-update-on-quarterly-guidance/> Accessed on April 29, 2020

⁵ Francisco Betti, Jun Ni, “How China can rebuild global supply chain resilience after COVID-19,” *World Economic Forum*, March 23, 2020 Available on <https://www.weforum.org/agenda/2020/03/coronavirus-and-global-supply-chains/> Accessed on April 29, 2020

⁶ Isabel Reynolds, Emi Urabe, “Japan to Fund Firms to Shift Production Out of China,” *Bloomberg*, April 9, 2020 Available on <https://www.bloomberg.com/news/articles/2020-04-08/japan-to-fund-firms-to-shift-production-out-of-china> Accessed on April 29, 2020

⁷ “Nintendo says to shift part of Switch console production out of China,” *Reuters*, July 9, 2019 Available on <https://www.reuters.com/article/us-nintendo-china/nintendo-says-to-shift-part-of-switch-console-production-out-of-china-idUSKCN1U40HR> Accessed on April 29, 2020

⁸ Evelyn Cheng, “US companies are still betting on Chinese consumers, despite coronavirus impact,” *CNBC*, March 25, 2020 Available on <https://www.cnbcm.com/2020/03/26/us-companies-still-betting-on-chinese-consumer-despite-coronavirus.html> Accessed on April 30, 2020

⁹ Rob Bailey, “Planning for the Unexpected: COVID-19 Is a Dry Run for Climate Catastrophes,” *Brink: The Edge of Risk*, March 30, 2020 Available on <https://www.brinknews.com/green-swan-climate-events-how-to-plan-for-the-unexpected-coronavirus-risk-environment/> Accessed on April 30, 2020