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How The Global Supply Chain is Transforming

Dennis Unkovic – Meyer, Unkovic & Scott LLP

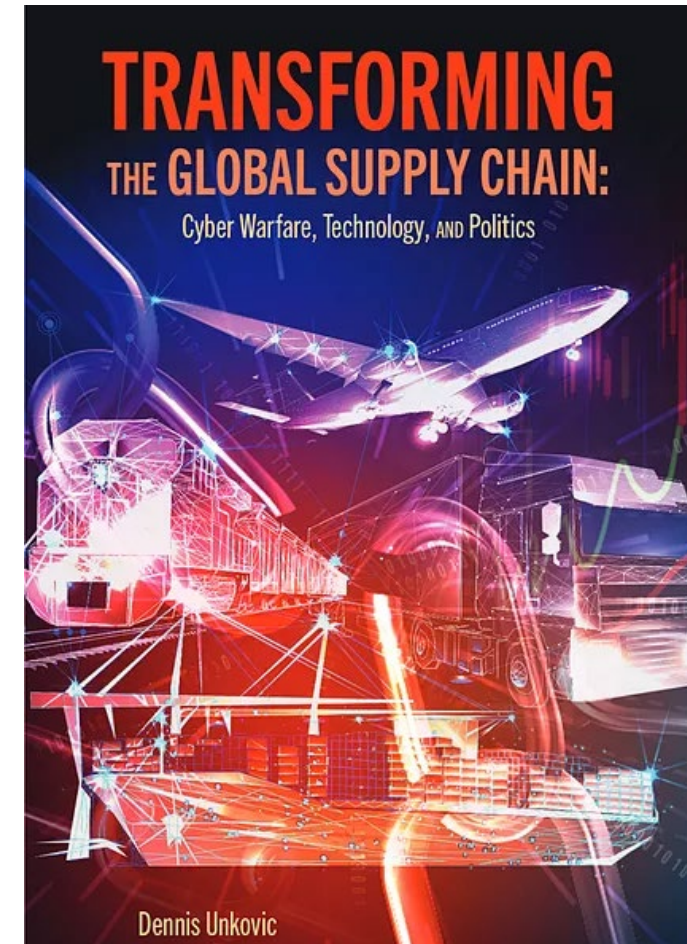


MEYER UNKOVIC SCOTT
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The Global Supply Chain

The global supply chain is broken. Because COVID-19 brought this issue to the forefront, many assume the pandemic is the reason for the collapse. It is not. Instead, there are a number of significant MaxTrends® which are responsible for the radical transformations already underway. Transforming the Global Supply Chain describes four key MaxTrends ® – the growing presence of cyber threats; the revolutionary impact of 3-D printing; the rapid adoption of robotics; and the new ways nations everywhere are seeking to protect their domestic economies from foreign competitors.

(Ankerwycke Publishing, Chicago, Illinois, October 2021)



Where we were...

Part One:

The Global Supply Chain (2019 - 2021)

The Global Supply Chain (2019 - 2021)

Prior to the COVID-19 outbreak in January 2020, China already faced nine serious challenges:

- Rapidly rising wages (high labor costs)
- Debt crisis (national and provincial)
- Housing bubble creating financial weaknesses
- An aging workforce with average retirement age of 54

The Global Supply Chain (2019 - 2021)

Prior to the COVID-19 outbreak in January 2020, China already faced many serious problems:

- A wide-spread and growing environmental crisis (air and water)
- Internal political unrest (Western China and Hong Kong)
- Regional political conflicts (South China Sea)
- Aggressive regional competitors (Southeast Asia and India)
- Ongoing tariff and trade wars with the US and the EU

The Global Supply Chain (2019 - 2021)

THE BOTTOM LINE:

While the COVID-19 pandemic **was not the cause** of the global supply chain breakdown, **it was an accelerant.**

The Global Supply Chain (2019 - 2021)

COVID-19 Infects China (January 2020)

- The timing of Chinese New Year was critical in triggering a supply chain breakdown
- How Chinese factories are structured and why they are vulnerable to disruptions

The Global Supply Chain Fractures

**China's Production shuts
down for Q1 and part of Q2
(February 2020 - May 2020)**

The Global Supply Chain Is Broken



South China Morning Post

460,000 Chinese firms closed in the first quarter amid fallout from the coronavirus

Registration of new firms between January and March fell 29 per cent from a year earlier

The Global Supply Chain Is Broken

- The Chinese government has not reported a contraction in China's economy since 1976, the year of Mao Zedong's death ended decades of financial turmoil.
- 44 years of unabated economic growth came to a sudden and dramatic reversal – January – June 2020.

The Global Supply Chain Is Broken

What did this mean for global business?

The closure and slow reopening of Chinese factories in 2020 disrupted production in:

- Finished consumer goods
- Components and assemblies for manufacturers
- Unique individual parts for companies

The Global Supply Chain Is Broken

- The situation in June 2020 did not improve as China began to emerge from the COVID crisis, because then the economies of Europe and North America shut down.
- The daisy chain continued, and the global economy plummeted during 2020 and 2021.

The Ongoing Global Logistics Crisis

Key Findings:

- Cost of container goods from 2020 to 2021 rose over 400% since pre-Covid pricing (China / US West Coast).
- Monthly American import volumes in the second half of 2020 were > 50% of the first half of the year.
- As of June 1, 2021 estimated 1M container shortage as scrapped containers were not replaced.
- In 2022, the shortage of containers continue.

Where we are going...

Part Two:

What to Expect in 2022 and Beyond

2022: What to Expect

- Global Lesson - “Just-in-Time” Manufacturing and Sourcing is Dead
- Rising Costs / Instability / Shifting Priorities / Global Inflation
- Small and Local Sourcing will Expand
- Focus on Risk Mitigation by Companies of all Sizes

2022: What to Expect

An example: Costco is renting 3 container ships and 'several thousand containers' to shield itself from supply-chain delays and rising costs

- Costco is renting its own container ships to import products from Asia to the US and Canada.
- It wants to sidestep the global shipping crisis and shield itself from shortages and rising costs.
- It's also renting "several thousand" containers, Costco CFO Richard Galanti said.

September 27, 2021



2022: What to Expect

A record number of cargo ships remain stuck outside LA.

What's happening?

Port complex of Los Angeles and Long Beach, already the busiest in the US, has seen major traffic this week as imports boom.



“The backlog at the nation’s busiest container port won’t ease until next summer (2022).”

Gene Seroka, Port of Los Angeles Executive Director

With China shutdown from COVID in 2022, the shortage will worsen

The reasons why...

Part Three:

**The Real Reasons Driving the Global
Supply Chain Crisis: MaxTrends®**

What are MaxTrends® ?

Six MaxTrends®

The MaxTrends® are the real reasons driving the global supply chain crisis

1. Rising labor costs
2. Crackdowns on foreign direct investment
3. Cyber warfare
4. 3D manufacturing
5. Robotics
6. Politics

MaxTrend®: Rising Global Labor Costs

- Chinese labor is no longer cheap
- “Just-in-time” sourcing depends on cheap labor
- Politics is now part of China’s just-in-time model, both internally and externally
- Labor rates throughout Asia are also on the rise

MaxTrend®: Foreign Direct Investment

- China is pursuing a policy of aggressively tightening its internal policies on companies by discouraging FDI into China
- The Chinese government is also closely monitoring the activities of foreign companies operating in China
- Foreign companies in China find themselves subject to increased government regulation
- The “China First” policy is irreversible

MaxTrend®: Cyber Warfare

- Watch out for increased cyber activity, both domestic and international
- Open door to new cyber criminal (non-government) entrants because of low barrier to entry
- Insurance coverage for cyber attacks increasingly expensive and sometimes unavailable
- Smaller companies with limited access to capital are particularly vulnerable to cyber criminals

MaxTrend®: 3D Manufacturing Comes of Age

- No longer just a limited technology for producing prototypes
- Assemblies vs. parts
- 3D manufacturing plants with server farms permit large scale manufacturing output
- Eliminating transportation costs and delays which are built into the current supply chain structure
- Re-engineer existing products to be less expensive and more efficient to produce

MaxTrend®: Robotics

- Costs to automate are rapidly decreasing, thus offsetting low labor costs
- Safety in the workplace is much higher with robotics, making manufacturing more efficient
- Robotic palletizers are an example of increased efficiencies and safety protocols
- Robotics lessens the high costs of current supply chain logistics

MaxTrend®: Politics

- Global trend - governments now demand more domestic sourcing for a wide variety of goods because of national security
- United States – China -- European Union
- *Example:* The Biden Administration has raised domestic content percentage for goods purchased with U.S. government funds

What is happening now...

Part Four:

**Current Developments Affecting the
Global Supply Chain**

Current Developments - 2022

Russia Invades Ukraine

Expect Eight Immediate Impacts

Russia's Invasion of Ukraine

Impact #1

Shortages of key metals from the region will affect the supply chain
(e.g., palladium, aluminum, titanium, nickel and lithium)

Impact #2

The worldwide automobile industry is already impacted due to the metals shortage

Russia's Invasion of Ukraine

Impact #3

Land-based routes between
China and Europe are disrupted

Impact #4

Air transport from Russia and Europe is disrupted,
which impacts the supply chain

Russia's Invasion of Ukraine

Impact #5

Sea freight routes via the Black Sea are disrupted affecting Europe and the Middle East. Turkey's control of the Bosphorus is key.

Impact #6

Ukraine is a large agricultural powerhouse. Expect large drops in wheat, corn and sunflower oil, which will result in shortages and price increases worldwide

Russia's Invasion of Ukraine

Impact #7

Unpredictable spikes in oil prices will continue

Impact #8

Global financial transactions are disrupted
slowing payments and
directly affecting the supply chain

Current Developments - China

Environmental Trends

- Power cut reductions in manufacturing
- Growth vs. internal pressure from the middle-class on environment
- Growth vs. external pressure from multi-government agencies and activist private groups

Current Developments - China

“China First” Policy

- Sales to China internal companies will take priority over exports
- Information security risks will continue for non-Chinese companies
- Ongoing crackdown on wealthy elites, including China’s technology billionaires

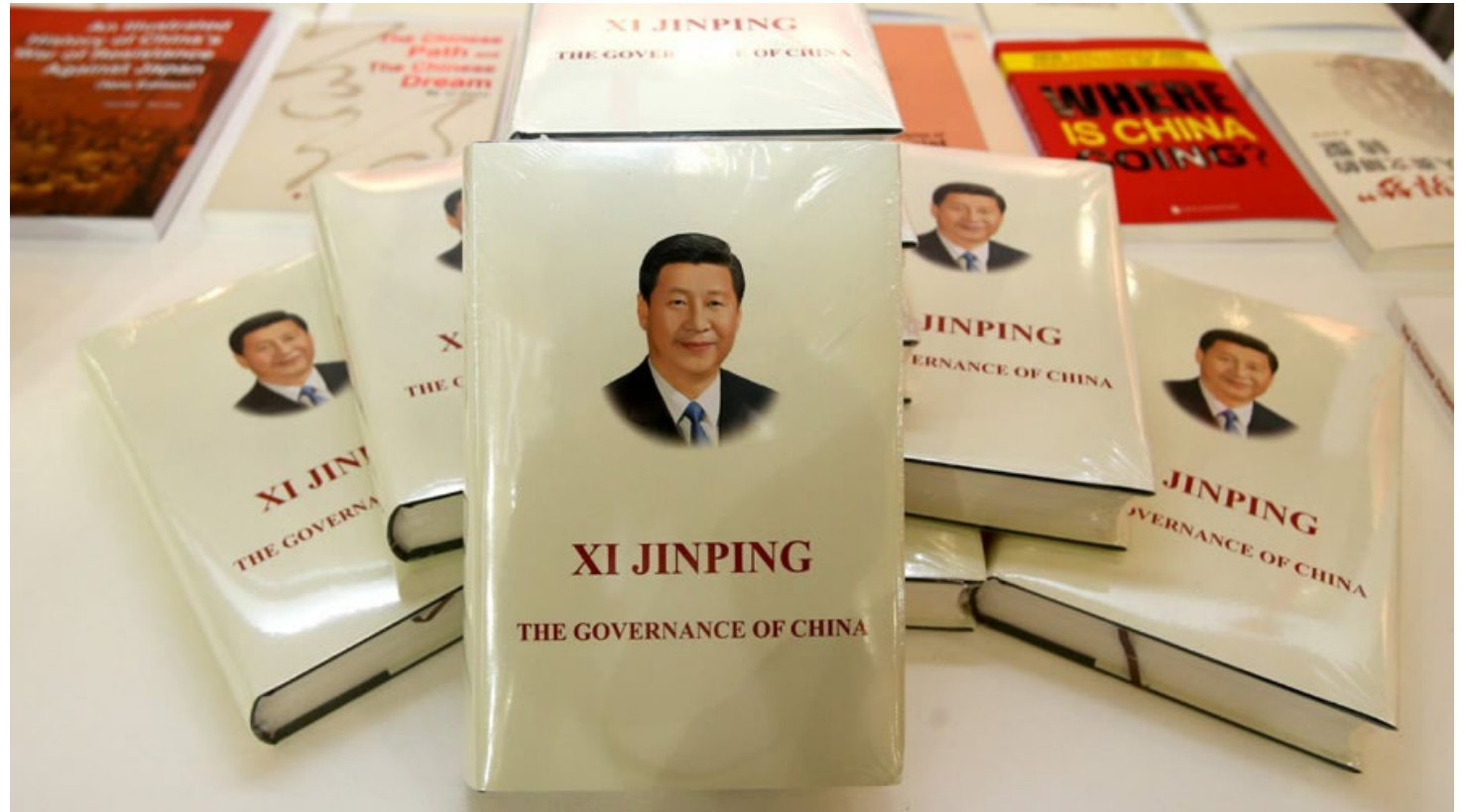
Five Key Takeaways

1. Xi Jinping, as China's undisputed leader, will dominate China's future global policies and actions
2. China will continue to focus on its own internal growth, catering less to Western demands
3. Internal politics will dominate China's policies on external engagements
4. Just-in-time manufacturing is dead
5. The global supply chain will never return to "business as usual"

Xi Jinping's New Economic Policy

**A case of
killing the
goose that
lays the
golden egg?**

***Only time
will tell...***



Varsha Bada Sharma in Asia Power Watch

Dennis Unkovic

Dennis Unkovic is a partner with Meyer, Unkovic & Scott LLP, a law firm of more than 60 attorneys handling a wide variety of business transactions, corporate litigation, and technology and intellectual property matters.

His practice focuses primarily in two areas – international business transactions including mergers and acquisitions, and resolving domestic and international supply chain problems.

Dennis also has extensive experience with inbound and outbound foreign direct investment transactions and works closely with companies, financial institutions, not-for-profit entities, and trade associations in the United States and abroad. His work has taken him to over 64 countries, with a particular emphasis on the Pacific Rim.

Dennis has written eleven books and over 165 articles published both nationally and internationally. His most recent book, Transforming the Global Supply Chain: Cyber Warfare, Technology, and Politics was published in October 2021. He served from May 2015 to May 2018 as the Chairman of Meritas®, a global alliance of law firms committed to rigorous quality standards for its 8,200 members in 94 countries around the world.



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Transforming the Global Supply Chain: Cyber Warfare, Technology, and Politics

By Dennis Unkovic

Contains practical advice and strategies for CEOs, boards of directors, senior managers, and anyone else directly involved in supply chain activities. The MaxTrends™ are happening, and the risks of doing nothing about them are high. The world economy as we once knew it will never return. The challenge now is for U.S. companies to figure out how to adapt to the quickly changing landscape.

The global supply chain is broken. Because COVID-19 brought this issue to the forefront, many assume that the pandemic is the reason for the collapse. It is not. Instead, four MaxTrends™ are largely responsible for the transformations already underway. *Transforming the Global Supply Chain* describes these MaxTrends™ in detail—the growing presence of cyber threats, the revolutionary impact of 3-D printing, the rapid adoption of robotics, and the new ways nations everywhere are seeking to protect their domestic economies from foreign competitors.

For many reasons, the biggest casualty over the next five years will be China. Some companies are already beginning the process of moving their supply chains out of China to other locations in Southeast Asia, India, and the Americas. Those U.S. companies that are aggressively reacting to economic and political pressures by reshoring their supply chains back to America are poised to be the most successful over the long run.

August 2021, 238 pages, 6x9

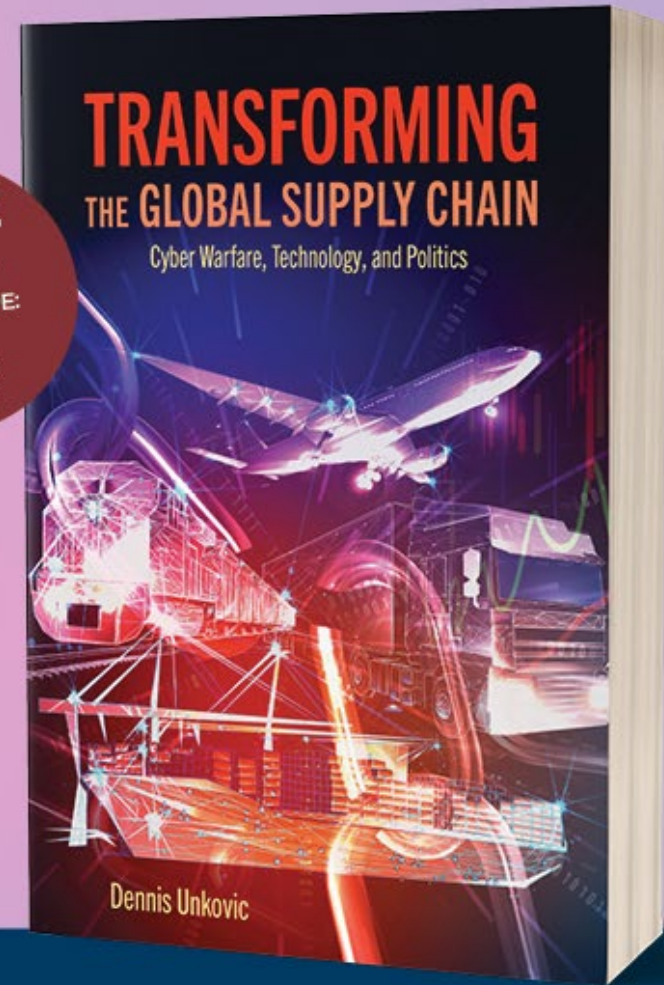
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