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Q&A- Global supply chains to shift away from China, but tariff discussions often impractical: Lora Cecere, Supply Chain Insights



Global companies will likely shift their supply chains away from China after trade tensions and trade agreements, but discussions around tariffs are not always aligned with what can feasibly be tracked, **Lora Cecere, founder of Supply Chain Insights**, told the Reuters Global Markets Forum on Thursday, February 4.

"Many of the tax and tariff discussions assume simplicity in the supply chain and the ability to track and trace which does not exist now, which results in system gaming," she said.

Cecere also expects more foreign investment into countries such as Vietnam to strengthen infrastructure as supply chains move from China to elsewhere in Asia.

Following are edited excerpts from the conversation:

Q: What are the primary ways that Covid-19 impacted supply chains, and are those changes going to be sustained?

A: Supply chains have never experienced this type of shock before. There is no new normal, only traditional demand planning systems were not equal to the rapid shifts in demand. Demand either went through the roof or to the basement and the organizations scrambled and got through the initial phases through brute force. Now they are trying to build better using market signals, not just historical order and shipments.

Most companies are global, and the markets are responding very differently. [There is] greater variation than normal, so the models are also having to be built to be more granular and specific. Traditional enterprise technologies like ERP and planning are not equal to the task.

On supply, air freight is down 18-40% by month. The supply chain leaders' ability to expedite is eliminated. Capacity is not available, and cost is too high. Global shipping by ocean is fraught with issues. Overcrowding, delays in ports, Covid hotspots. Time frames for ocean unloading variable and elongated. Companies are looking at more regional models.

The semiconductors market is a mess. Japanese fire took out capacity, the higher demand for home electronics was higher. There are not enough chips today for anyone.

Q: What are your insights about near-shoring or onshoring?

A: It is not that simple. The average supply chain is very complex with outsourcing and the management of many tiers of suppliers. We are becoming more regional and building redundancy. Most supply chains stripped out the redundancy.

Near shoring and onshoring does not adequately frame the conversation. It is more complex than the terms connote. The focus will be on business continuity within regions: North America, South America, Europe, Africa, Middle East, and large countries within Asia.

Q: How is the global recovery playing out for different industries' supply chains? And given the disruptions you mentioned, are there risks of supply chain disruptions if demand rapidly increases?

A: For consumer goods, demand has never been stronger. Supply is the issue. There is a bevy of new forms of contactless shopping and innovation in the middle mile. Traditional retailers [will] struggle, the trend will favor smaller and more nimble retailers with a focus on the shopper.

Automotive supply chains are largely outdated and will struggle with supply. The elongation of payment terms and the tough standards for a supplier will put them at the bottom of the list to get things in tight supply like semiconductor chips and glass. Hospitals will struggle. Who is going to pay these high costs of COVID-19 patient visits?

Q: Will supply chains will continue to shift out of China as some were during the "trade war?"

A: Yes, only 9% of companies actively design their supply chains. Supply chains will develop in China to serve the growing Chinese markets -- regional supply chain designed [to] serve regional markets with global governance.

Let's hope that there is a reduction of tariffs on commodities. The lumber tariffs added \$19,000 to the average build of a U.S. house. The poor farmers in the Midwest need to get their crops to global markets, which is an issue with the congestion of the ports and the decline in air.

Q: What are the dominant factors for shifting supply chains within the RCEP bloc, beyond the obvious cost-competitiveness and fallout of the U.S.-China trade tensions? And which countries do you see ranking at the top and bottom based on these factors?

A: Skills are an issue. Supply chain skills are low in Asia.

One issue is tracking "country of origin." How do you assess the compliance of a good with 49% completion in China versus 51%? Many of the tax and tariff discussions assume simplicity in the supply chain and the ability to track and trace which does not exist now, which results in system gaming. The problem is that the tax and tariff discussions are not always in alignment with what is feasible to be tracked.

Q: Do you expect more shifts to, say, Vietnam or India?

A: Yes, to Vietnam. I expect more movement in Asia away from China by companies headquartered in Europe and North America.

Q: Do you expect more foreign investment into infrastructure, logistics development, etc. as that happens?

A: Yes, infrastructure is the crux of making it feasible.

Q: President Biden's administration is expected to focus on ways to build up American manufacturing, how do you see this impacting the global and regional supply chain?

A: I think that the current focus will drive little change. I don't want to get down a political rat hole, but the current approach is myopic. It "out-Trumps" Trump in isolationistic policy versus building up manufacturing capabilities

Q: Interesting, so how could it improve?

A: We need to focus on helping manufacturers not just looking at manufacturing to drive union jobs. We need a business-to-business information highway like the consumer internet.

Q: The vaccine supply chain has obviously been a key point of discussion over the past few months- what are some of the takeaways and points to improve after some of the hiccups in the rollout of different vaccines?

A: So many. First of all, the distribution of a vaccine is more than just a distribution problem. We focused on moving the goods, not the design of the supply chain. There is little guidance for the states in policies or data on availability. We have done little to improve the speed of vaccinations. Instead we have only focused on moving the vaccine.

The scientists assumed that the flu vaccine model would work for Covid-19 vaccines and it is not a good model to work from. We needed to design a supply chain for testing and distribution. Instead, we deployed the emergency response systems for logistics. As a result, we will elongate our recovery.

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