



**Asia-Pacific  
Economic Cooperation**

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**2020/CTI/WKSP3/003**

## **Services and Supply Chain Disruption**

Submitted by: Australia



**Workshop on Building Resilient Supply Chains in  
APEC: Agility in Crisis  
28 October 2020**

# Services and supply chain disruption



# MODERATOR

**Ms Lisa McAuley**

CEO

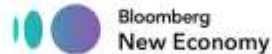
Global Trade Professionals Alliance  
(GTPA)





# PANEL MEMBERS

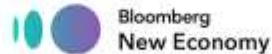
**Dr Robert Handfield**  
Executive Director  
Supply Chain Resource Cooperative





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**Dr Robert Handfield**  
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# Building Resilient Supply Chains in APEC: Agility in Crisis

## Services and Supply Chain Disruption

Simon Lacey  
University of Adelaide



# The Good | The Bad | and the (mostly) Indifferent

## The Good: Crisis as Catalyst

- Education
- Call centers
- Video-conferencing providers
- Online content management or productivity platforms



## The Bad: Crisis as Disaster

- Travel
- Retail
- Hospitality
- Beauty salons



## The Indifferent: Business as Usual

- Freight/Logistics
- Government
- Medical (other than ERs)
- Finance
- E-commerce



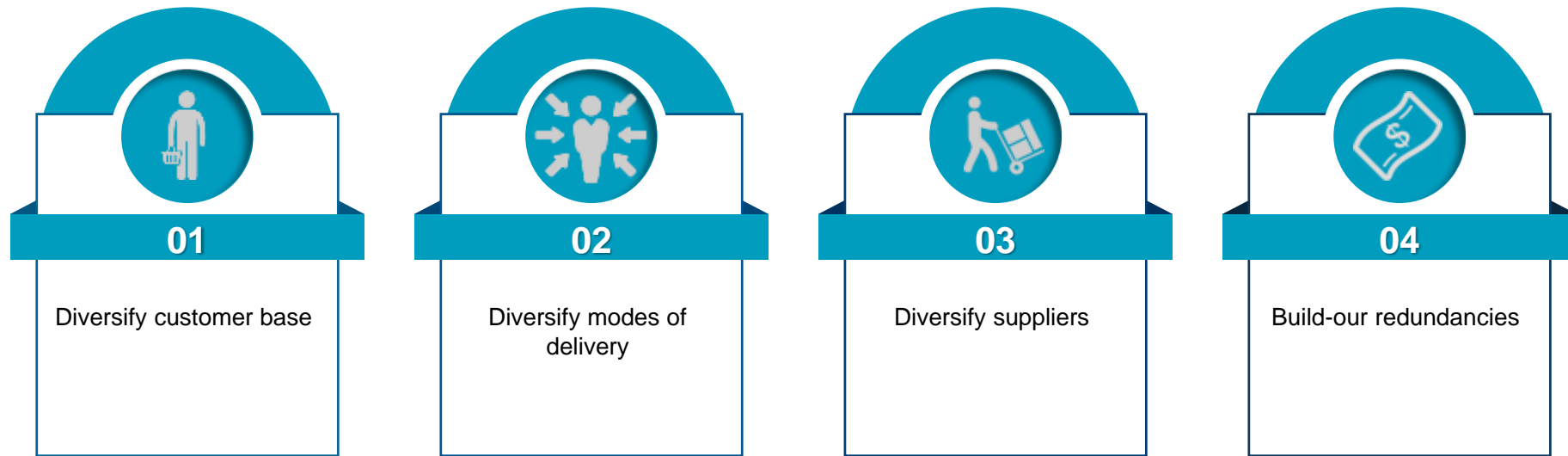


# Lessons Learned





# Resilience and Robustness | The Services Angle



# Thank you for listening

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# PANEL MEMBERS

## **Alberto Posso**

Professor of Economics and Director  
Centre for International Development at RMIT  
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# Supply chains and the new normal

**What may a post-COVID or living-with-COVID world look like?**

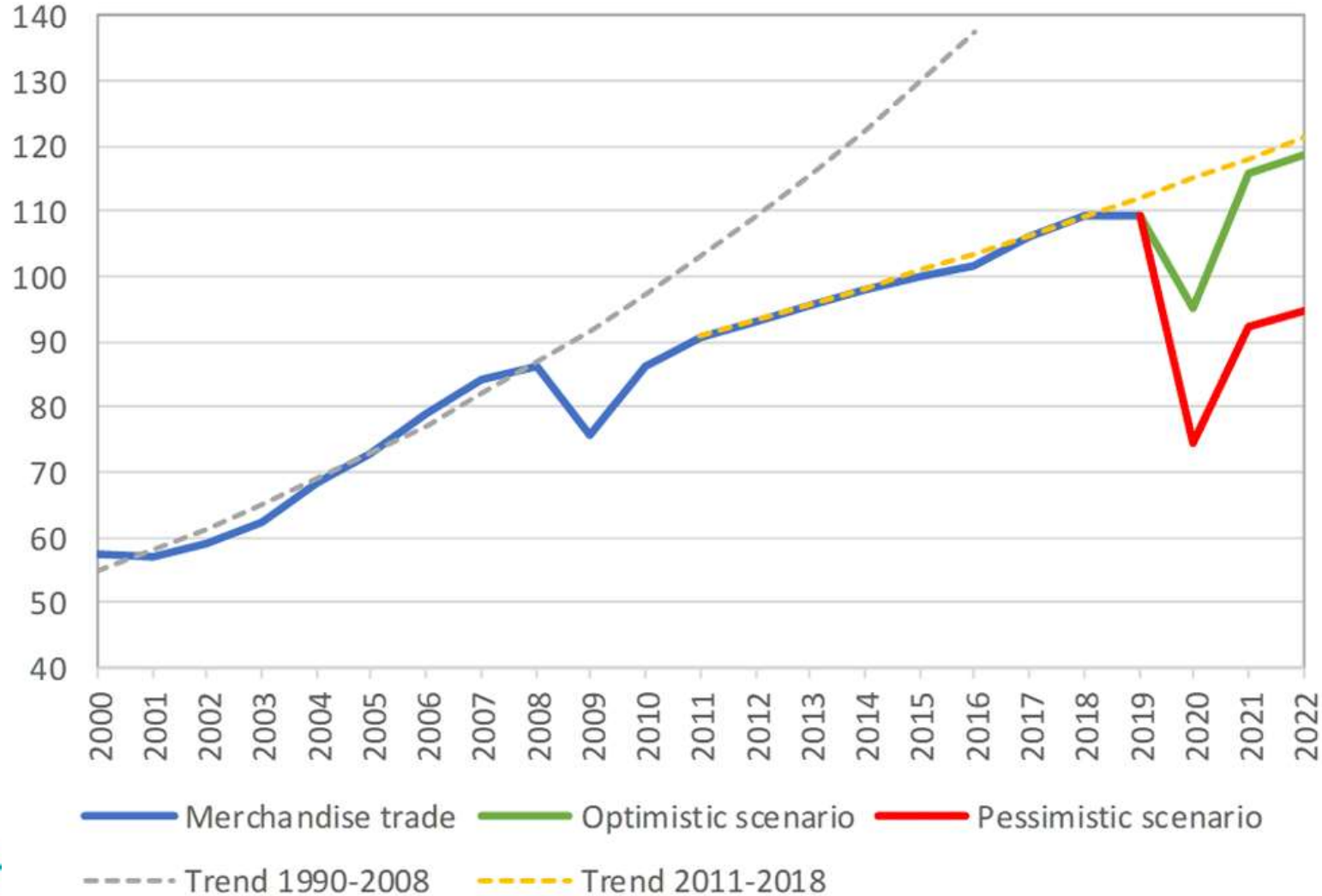
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Alberto Posso  
of Economics

Professor



# World merchandise trade volume 2000-22



Source: WTC (2020)



# Trade disruption affects final and intermediate goods

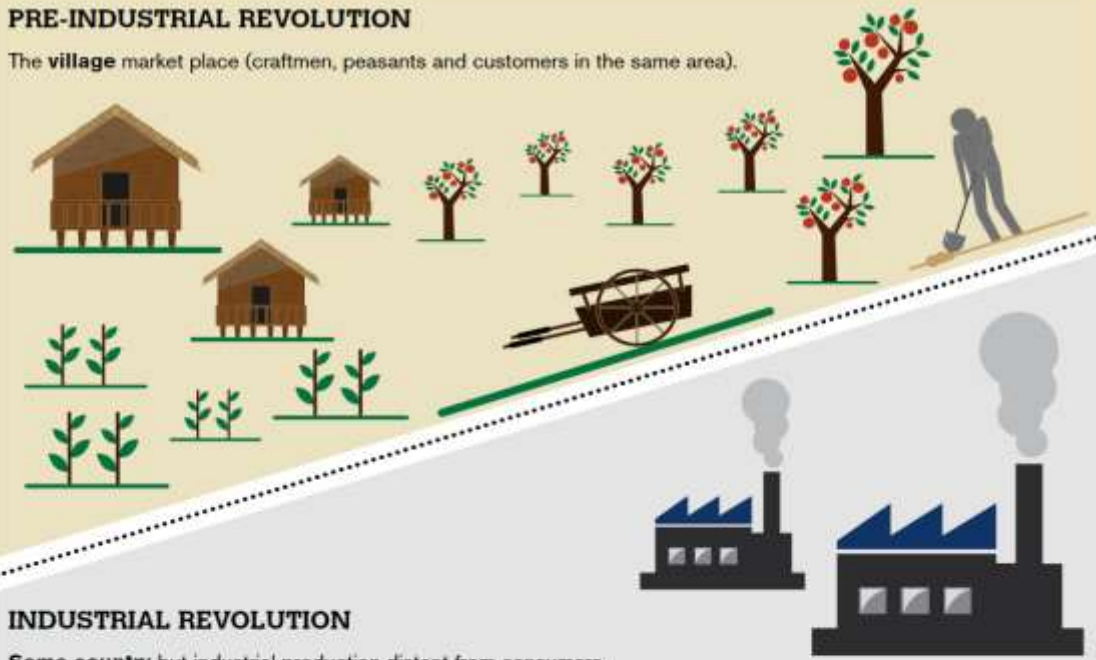
- Consumers around the world have been impacted by trade disruptions:
  - Shortages of field workers brought on by lockdowns and a move towards protectionism – tariffs and export bans – means that some supermarket shelves in some economies look emptier.
- But not all imports are final goods, some are intermediate, and this means that making things at home can also get harder.
- Supply chains are being disrupted.



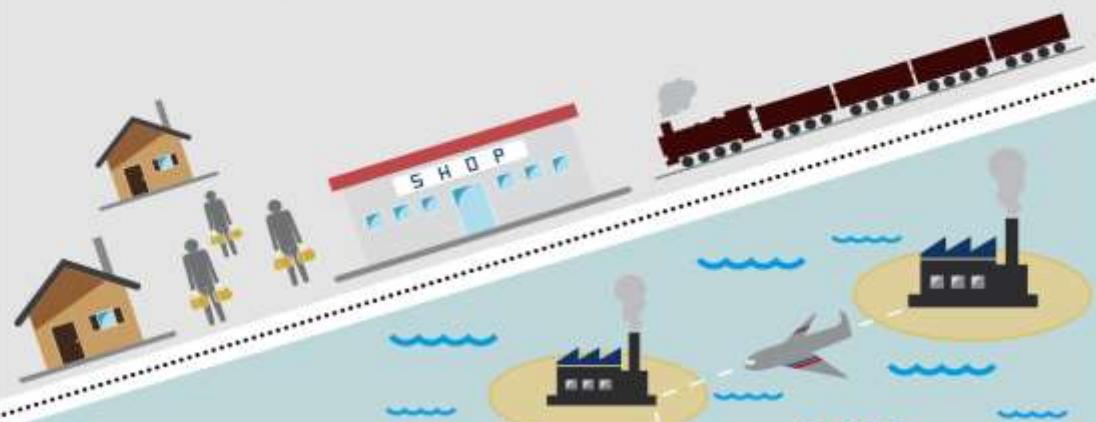


**PRE-INDUSTRIAL REVOLUTION**

The **village** market place (craftmen, peasants and customers in the same area).

**INDUSTRIAL REVOLUTION**

**Same country** but industrial production distant from consumers.

**POST-INDUSTRIAL REVOLUTION**  
Trade in Tasks

**Various countries** with fragmented production chain.



# Supply chains are now governed by international trade patterns

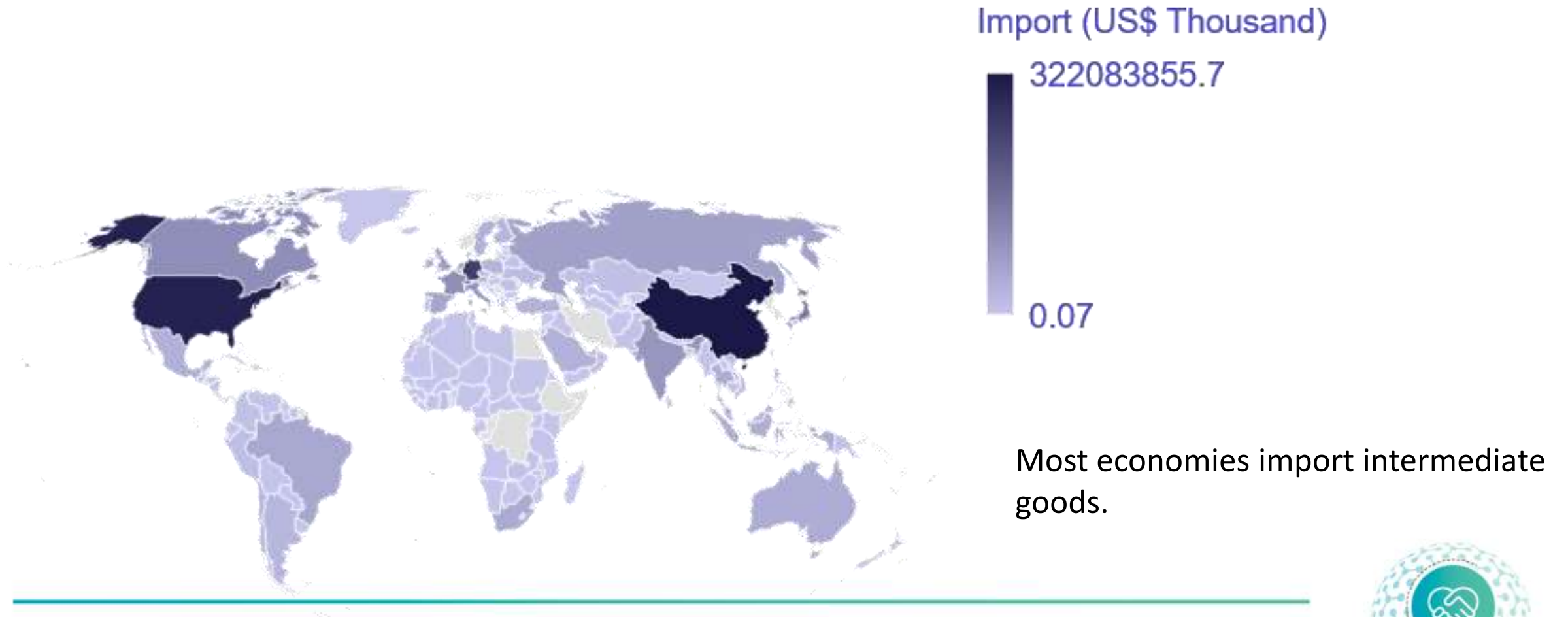
- Modern supply chains are made up of many firms specialised in different tasks.
- Vertical integration describes the degree to which a company owns its upstream suppliers and downstream buyers.
- For most of the 20<sup>th</sup> century, vertical integration was conducted domestically.
- Since the late 1990s, it has been internationalised.
- COVID-19 disrupts these processes.



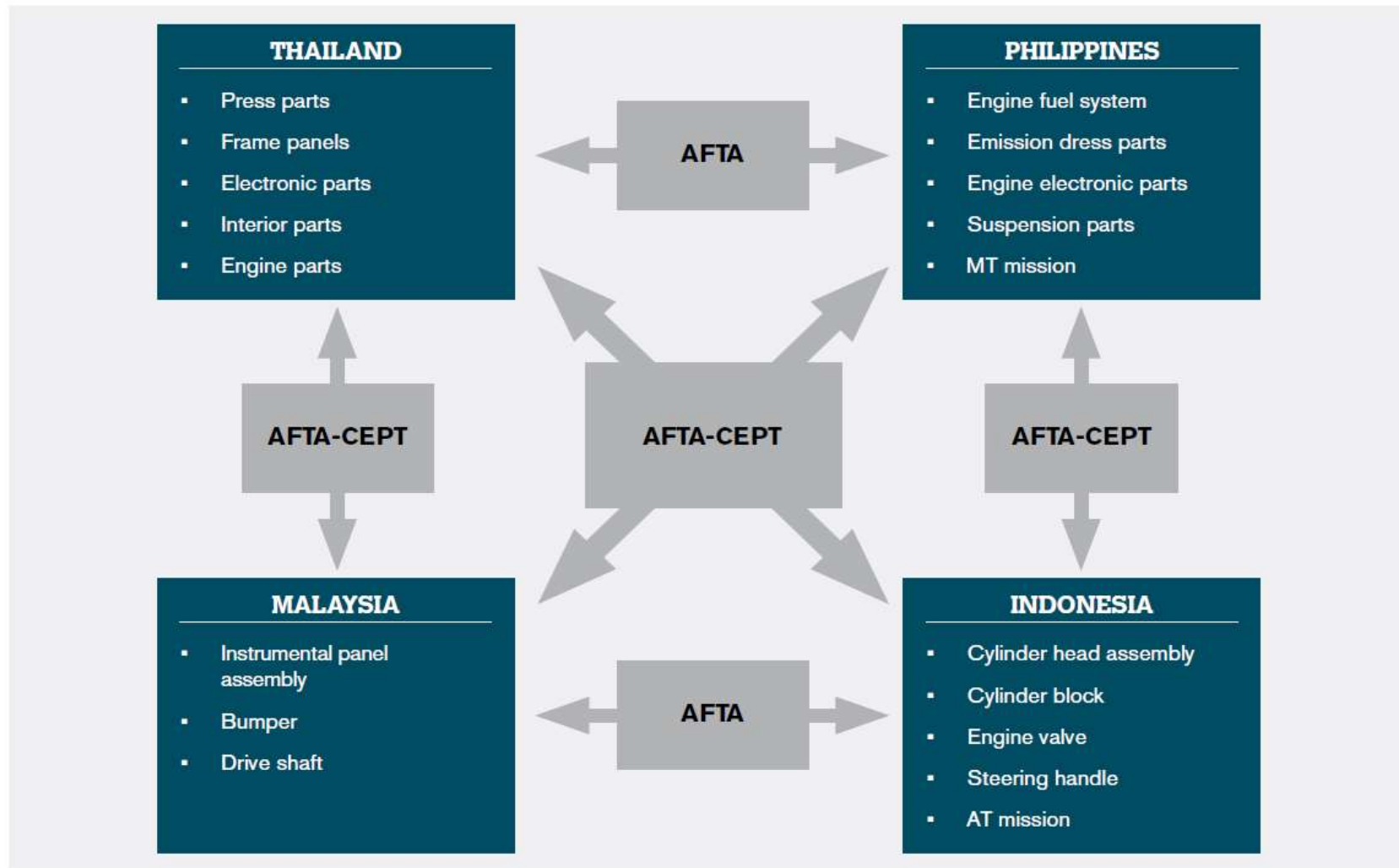


# We're all in this together:

## Intermediate good imports from world, 2016



# Complementary parts supply system of an automobile assembler in ASEAN



Note: the ASEAN Free Trade Area - Common Effective Preferential Tariff (AFTA-CEPT) is a cooperative arrangement among ASEAN member states to reduce intra-regional tariffs and remove non-tariff barriers.

Source: Hiratsuka (2010).



# Upshot:

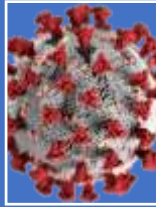
## A slow down of imports is bad for business

- Globally, about 70% of imports are intermediate goods.
- Importing cheaper intermediate goods makes production more efficient, leading to growth.
- Disruptions to imports hurt manufacturing processes, hurting domestic production.
- Global value chains are disrupted by shutdowns, lockdowns and travel disruptions.



# Economists are not fortune tellers, but...





# New normal



Vaccine



Ineffective  
vaccine



No vaccine  
(some  
effective  
treatments)



# Scenario 1: Vaccine

- Once the vaccine is widely available, firms & economies will look to re-establish pre-crisis patterns... to an extent.
- Firms will be scared about new viruses or other factors that can disrupt supply chains.
- Firms will look toward supply chain diversification.
- Recovery may be v-shaped or - shaped, as new production networks, infrastructure and logistics will need to be established.
- Firms will build resilience by stockpiling some goods
- Building domestic production (when costs aren't too high):
  - In the longer run, we may see some innovation in production processes





# Diversification of international supply chains

- Firms minimise risk of business disruptions.
- As firms increase their supply sources from 3 to 10 economies, more economies will be able to find new export markets and growth opportunities, aiding in their recovery.
- Supply chain diversification is governed by comparative advantage.
  - Goods are produced in the most efficient locations considering costs and endowments.





## Scenario 2: Ineffective vaccine

2.1 Vaccines are produced, but  
do not work

22

2.2 Vaccines are produced, but  
many economies don't get  
access.



## Scenario 2.1: Vaccines do not work

- People receive vaccines, but infection levels remain high.
- This leads to a prolonged crisis, hurting both consumer and investor confidence.
- Panic may lead to more protectionism.
- Consumer prices increase leading to goods scarcity in the short-run.
- This can result in increased need for supply chain diversification, but will depend on political will.
- In the longer run, we may see some innovation in production processes.



## Scenario 2.2: Vaccines work, but some economies do not get them

- WHO is working hard to stop this from happening.
- While some economies may be hoarding vaccines, it is in their interest to ensure an equitable supply to avoid resurgent migration crises and other global political problems.
- Poorer economies get pushed out of production network opportunities.
  - Global inequalities are reinforced.
- Calls for supply chain diversification get reinforced.
  - Comparative advantage? Products are not (necessarily) produced in most efficient locations, leading to higher prices.
- In the longer run, we may see some innovation in production processes.



# Scenario 3: No vaccine, but new effective treatments

- Resurgent lockdowns and shutdowns.
- 'Bubbles' created amongst economies undertaking better healthcare practices.
- Poorer economies get pushed out of production network opportunities.
  - Global inequalities are reinforced.
- Calls for supply chain diversification get reinforced.
  - Comparative advantage? Products are not (necessarily) produced in most efficient locations, leading to higher prices.
- In the longer run, we may see some innovation in production processes.



# Innovation processes

- Labour-saving technologies & automation.
- Evidence that the pandemic has accelerated these processes as firms want to get humans out of the supply chain.
- Implications for jobs are unclear:
  - Substitutes or complements?
  - Lower demand for workers, will lower wages. If wages get low enough, taking on infection-related risk may be OK.



# What can my economy do?

- Most economies do not have the capacity to make their own vaccines.
- Until a vaccine is available, economies must remember that:
  - Continued lockdowns and shutdowns are destructive.
  - Investing in health services and practices is key.
  - Dispelling rumours, conspiracy theories and misinformation.
  - Communicate health advice properly.
  - Cracking down on corruption.





# Thank you very much.

For questions and comments please contact:

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