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ECONOMY | THE OUTLOOK

Firms Want to Adjust Supply Chains Post-Pandemic, but Changes Take Time

Covid-19 has exposed the risk of farflung production; alternatives like making things at home could raise costs



A factory that makes automotive parts in China's Shandong province this month.

PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES

By [Mike Cherney](#)

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The coronavirus pandemic snarled the world's sprawling supply chains for months, shutting factories, disrupting shipping and making it difficult for companies to get products from factories to consumers.

Now, many companies are considering changing the model to avoid future product shortages and transportation delays, even if it might increase costs. Some are looking at moving production closer to home. Others are considering

spreading small factories around the world instead of putting all their manufacturing in one place.

There is little evidence of a big shift so far, given the costs and the uncertainty. But surveys and interviews with corporate executives show some have started to make changes and many are seriously considering them, though consultants say the moves could take several years to roll out.

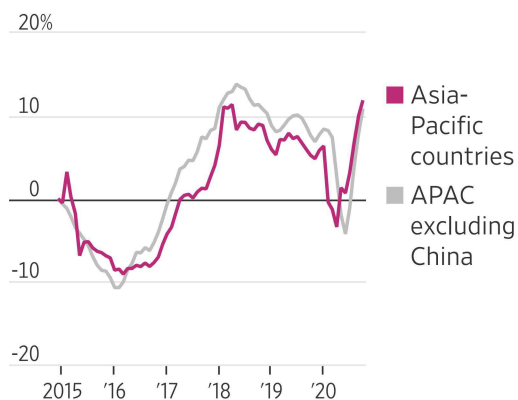
Their decisions could ripple through the global economy, fueling growth in some places while curbing it in others. Prices for consumer goods could rise, as companies source from more expensive places. Higher inflation and interest rates could follow.

“If you go into a world of more diversified supply chains, which almost certainly will be less efficient...you could start to see inflationary pressures building,” said Shaun Roache, chief Asia-Pacific economist at S&P Global Ratings, who previously worked for the International Monetary Fund.

In Tandem

Exports from China and the Asia-Pacific region have bounced back since the start of the pandemic.

Change in export revenue since December 2014*



*Three-month average of seasonally adjusted export revenue in U.S. dollars, excluding mineral fuels

Source: S&P Global Ratings

One idea being discussed in corporate boardrooms is called “regionalization.” That involves sourcing components or setting up factories in multiple parts of the world at once, and then using each region to supply products to customers in the closest markets. If a factory is closed due to a disruption in one place, it will only impact sales in a few nearby markets, without affecting customers elsewhere.

Other companies are considering expanding more at home, a variation of the idea of “reshoring,” or bringing manufacturing back to a company’s home market from abroad.

Many executives have panned these ideas in the past, calling them too expensive and inefficient. But the U.S.-China trade war left many companies wary of concentrating too much production in one place—often Asia—in a race to keep costs low. The disruption from the coronavirus pandemic reinforced the feeling that the caution was warranted.

“The chessboard for manufacturing and production has been set in a certain way for the last 20 years,” said Christian Lanng, chief executive and co-founder of Tradeshift Network Ltd., which runs a platform that helps companies and their

suppliers to buy and sell parts and components. “What happened with Covid plus trade war is that the chessboard got scrambled. People are trying to figure out, where are companies putting the pieces now?”

In May, nearly a quarter of companies told the Institute for Supply Management that they are planning or have begun to reshore or “nearshore” some or most of their operations. That same month, 93% of executives told McKinsey & Co. they would explore a potential overhaul of their supply chains.

Some companies are already making changes. Branch Furniture, an office-furniture startup in New York, recently chose to work with two domestic manufacturers in California to launch a new line of panels and partitions that give workers more privacy, said Verity Sylvester, a co-founder of the company. Much of Branch’s other furniture is still made in China, but Ms. Sylvester decided to make the products domestically because she couldn’t travel to China to see samples and oversee production like she usually does.

“I love that some of our products come from the U.S.,” she said.

But many companies remain hesitant, particularly now that the initial disruption from the pandemic has eased and global trade has rebounded. Setting up new supply chains is expensive, and the incentive to keep production in low-cost countries could be overwhelming.

The pandemic “doesn’t appear to be a fundamental game-changer in the way that supply chains are run,” said Carter McNabb, a partner at GRA Supply Chain Pty Ltd., a consulting firm with offices around Australia. “But it certainly has created pause for businesses to look more into their supply-chain risks and resilience.”



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It has proven particularly tough to diversify away from China, whose factories reopened quickly in the spring, while other countries struggle to control the virus.

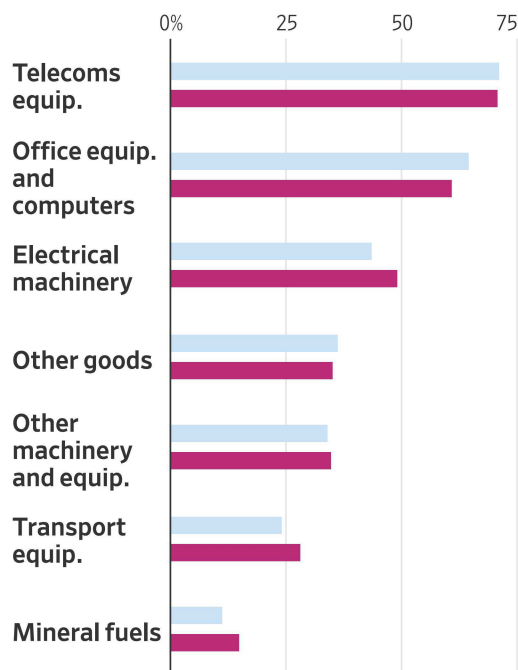
China’s share of Asia-Pacific export goods has remained steady in most key product markets, dipping slightly in office equipment and computers but rising in categories like transport equipment and electrical machinery, according to a recent analysis from S&P Global Ratings. Overall, Asia-Pacific nonfuel exports are back above or close to pre-Covid and pre-trade war levels—suggesting there hasn’t been any big shift in supply chains yet.

Holding Pattern

China's share of exports from the Asia-Pacific region has held largely steady in key categories despite the pandemic.

■ Five-year average

■ Past 12-month average



Note: The five-year average doesn't include 2020.

Data is for 12 months ending in October.

Source: S&P Global Ratings

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powder to reach Australia from processing plants in China as before the pandemic.

The company was already planning a new factory before the pandemic. But the recent supply-chain disruptions "made us push the button earlier," he said.

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Still, countries like Vietnam—long viewed as an alternative low-cost manufacturing center to China—have increased their exports to the U.S. in recent months, said Rajiv Biswas, Asia-Pacific chief economist at IHS Markit. Elsewhere, the Japanese government launched a new program this year to pay companies to shift some production back to Japan and countries in Southeast Asia, Mr. Biswas said.

"Because of the lockdowns and the travel bans, it's very hard to shift supply chains in the middle of the pandemic," he said. "You'll need to talk to the government to get approvals. It's very hard to do everything remotely and I think that is adding to the delay. But I think as restrictions are eased, then we'll see a pickup in that kind of activity."

Among the companies moving already is [Amaero International Ltd.](#), a company in Australia that 3D-prints aerospace and defense components out of titanium powder. Because of the pandemic, Amaero is fast-tracking a new factory in Australia that will be able to process the metal into the powder it needs, so it will no longer have to obtain the powder from half a dozen suppliers globally.

Stuart Douglas, Amaero's executive director for strategy and growth, said it now takes about twice as much time for

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