

How Coronavirus Could Impact Global Supply Chain

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Caixin Global Webinar

Global Value Chains in a time of COVID-19

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Global value chains deeply embedded

- Critical component of overall growth strategies
- Constantly evolving reflecting technological shifts
 - From goods and services to information
 - Increasing fragmentation with robotisation and AI affecting localisation
- Deeply embedded in political economy
 - Social equity + populism => localisation of tension
- Increasingly vulnerable to global disruption
 - Diminishing margins + increasing switching costs?

China now centre of global value chains (GVCs)

- GVCs transforming dramatically since global financial crisis
- China increased vertical integration + increased exports of intermediates
- China reduced its dependence on rest of Asia => Asia GVC share down
- EU dependence on China increased => EU share of GVCs sharply down
- US increased imports of intermediates for exports => reduced GVC share
- **China less dependent on the world – world more dependent on China**

The impact of COVID-19 on Global Value Chains

- Impact on China's economy different from SARS (Hubei vs. Guangdong)
- China obviously more important and further up the value chain
- Very hard to quantify margins and switching costs – new arrangements
- Reinforce the ongoing much wider “Great Decoupling”
- China central to exports of important active ingredients in antibiotics and other critical drugs as well as protective equipment

Impact on specific sectors and countries

- Electronics, machinery and textiles most exposed
- China's automotive supply lines affected, but already weak demand
- Japanese, Korean and Taiwanese firms most affected
- Vietnam the most affected country
- EU dependency increased, but primarily on consumer goods

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Chairman, AmCham China



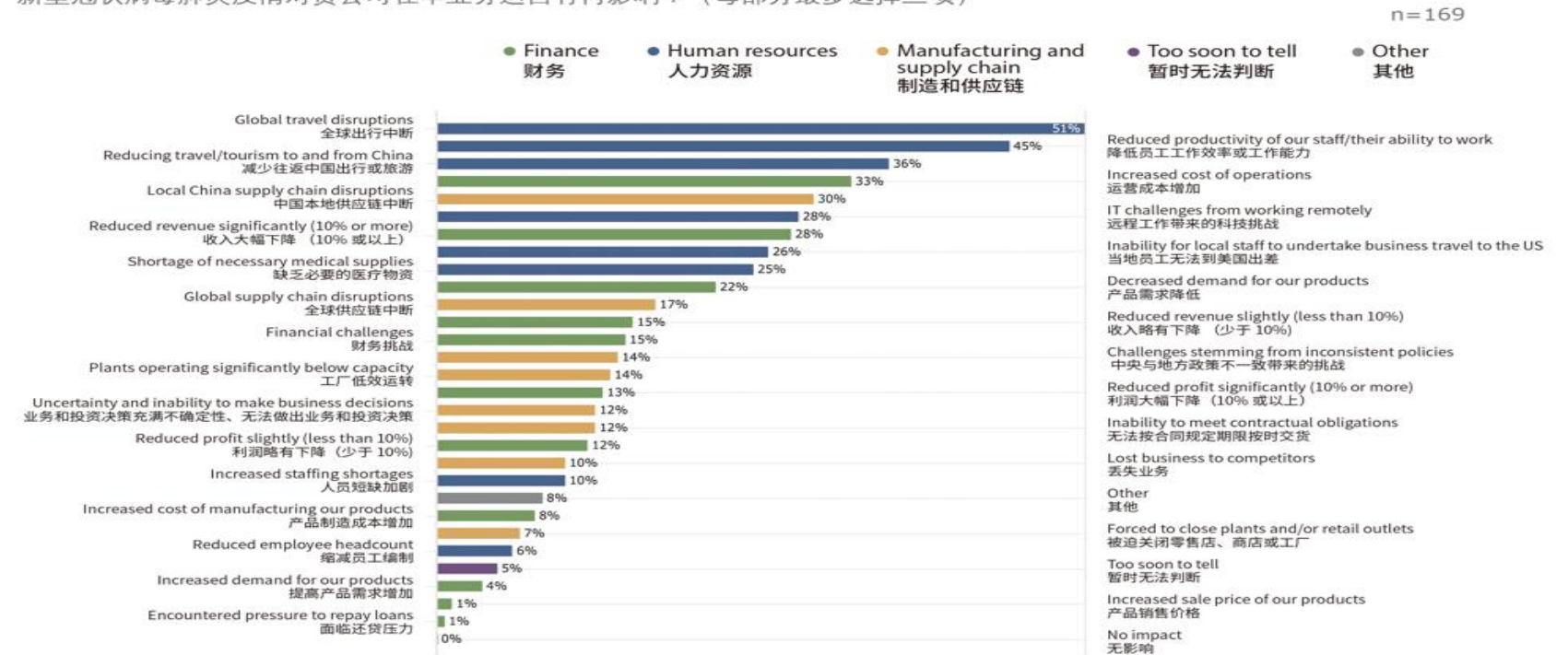
COVID-19 Impact on MNCs

- Feb 27 Survey results; pending updated Flash Survey
- Three-to-Four Phases of Impact

Travel disruptions and reduced staff productivity present the most significant challenges for member companies; nearly one-third of respondents face increased costs and significantly reduced revenues

出行中断和员工生产力下降是会员企业面临的最大挑战；近三分之一的受访者面临成本增加和收入大幅降低的问题

How is the COVID-19 epidemic impacting your business operations in China? (Check up to top three within each category)
 新型冠状病毒肺炎疫情对贵公司在华业务运营有何影响？（每部分最多选择三项）



Impact, Phase One

- Gathering Data
- Prioritizing Health and Human Safety

Impact, Phase Two

- Resumption of work
- Productivity Issues
- The balance of those things with Health and Human Safety
- Intensive collaboration with government authorities

Impact, Phase Three

- Assessing the course of the virus and creating different scenarios of impact
- Gathering more data – AmCham China surveys

Business Climate Survey



Strategies for Supply Chain Adjustment

- Data incomplete - currently anecdotal examples
- De-politicizing the question
- Upcoming survey update

Globalization, the US-China relationship and the Decoupling Debates

- Globalization and its champions – rhetoric and contradictions
- US-China bilateral relations are key drivers in driving investment decisions, and a key concern of American businesses in China
- Decoupling, to what extent and purpose?

Summary

- Fundamental differences in our two systems, rife for misunderstanding
- US-China commercial relationship as a foundation
- Commerce's role in making things better

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Amid the Coronavirus Epidemic, How should Global Companies Think about their Supply Chains

Dr. Edward Tse

Founder & CEO, Gao Feng Advisory Company



The Coronavirus epidemic has created havocs to many companies' supply chains

Key News Stories

- A Shanghai American Chamber of Commerce survey (Feb.11 – Feb.14) of 109 manufacturing multinational corporations in China revealed broad concerns
 - **48%** of companies report their global operations are already impacted by the shutdown
 - **78%** of companies do not have sufficient staff to run a full production line
 - Over the next few months, **58%** of companies expect their output to be lower than normal
 - Some said the outbreak increased their determination to **move business out of China**, to places such as India
- Operations of many global companies have been **disrupted**
 - Tech giant Apple is expected to ship **5% to 10% fewer iPhones** this quarter since its largest outsourcer, **Foxconn**, **delayed resumption of work**
 - Leading Korean auto manufacturer Hyundai had to **shut down all its factories in South Korea** due to lack of auto parts from China-based suppliers, and these factories have only partially re-opened
 - Several Nissan vehicle manufacturing factories in Kyushu, Japan were **forced to close** for the same reason

Global CEOs must ask three key questions

Three Key Questions on Supply Chains Deployment

1. How will global demand patterns for my **products shift** after the epidemic?
2. What will be my **product-market strategy** to address the changes?
3. What is my best guess of the **key variables** that could affect how I should think about my new supply chains, e.g., trade tariffs, non-economic trade issues such as “national security” concerns, my supplier base, costs, quality, agility and responsiveness? What scenarios are possible, and how can I respond to “black swan” events?

How would the “New China” look like, post the epidemic?

- This is the second shock to China’s system, as it just went through the first phase of the Trade War with the US. Exposure to these challenges has triggered the government to re-think its approach towards the **public agenda**
- There will be profound changes to **China’s governance system**, which will have to become more **transparent and accountable**
 - China’s “**three-part duality**” model **focused on economic development**, but it may not be adequate to fully **address a new public agenda**
- The Chinese society will become increasingly **connected and intelligent**
 - The government, businesses and individuals will share information and resources more often; **big data** across **all aspects of society**; as a result, **commercial applications** will evolve
- China’s **socioeconomic patterns will evolve**, shifting increasingly from **offline** to **online**
- **New business opportunities** will be created in some sectors; **innovation and entrepreneurship** will become more prevalent
- China will play a more responsible **role in the world**
 - Enhancing the public agenda is not just a China issue but also an international issue, driving China to work more closely with the rest of the world to address issues that transcend across national borders

Our hypotheses on trends

NOT EXHAUSTIVE

Key Hypotheses

1. A major nationwide effort would be made towards creation of a **safer and more health-conscious living environment**
2. For public health, **early detection, prevention, advanced diagnostics and treatment**, would become much more important in a more comprehensive public health management system
3. There would be more **Public Private Partnerships (PPP)**
 - Collaboration between private and public sectors to create solutions addressing public agenda issues
4. The formation of a more **ubiquitous, connected and intelligent society** would accelerate, leveraging new **disruptive technologies** such as IoT, AI, 5G and blockchain
5. In the future, **big data** would become even more prevalent with more **data sharing across the board** for more effective public agenda management
6. Rise in **new modes of interactions** among people and everything
 - Digital touchpoints would evolve exponentially, in the form of human-to-machine and machine-to-machine
7. While **entrepreneurship and innovation** have already been rising in China over the last several decades, going forward, they would further accelerate to address the pain points that were exposed during the coronavirus epidemic

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How Chinese companies back to work?

Qu Yunxu

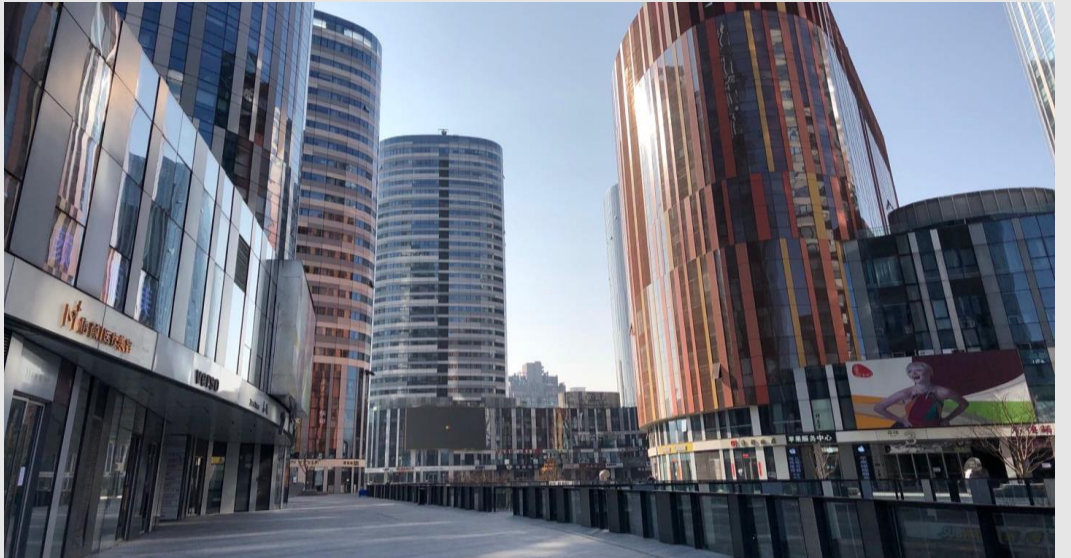
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Resumption is happening

- Industrial: "key" provinces 90%, Zhejiang, Guangdong, Shandong, Jiangsu 95%
- Major exporters: Zhejiang, Tianjin 100%, Guangdong, Jiangsu, Shanghai, Shandong, Chongqing 70%
- Postal express: 3 million workers, 92.5%, 80%
- Cities in Hubei Province preparing to resume work



The big trade-off: work resumption vs disease control

- 8 million to 116 million masks daily
- \$500 to \$1000 reward for each worker
- 20+ cluster infected institutions

In Depth: China's Titanic Challenge Curing Virus-Stricken Economy

By Yuan Ruiyang, Luo Guoping, Zheng Lingke, Sun Ziliang and Han Wei

Feb 24, 2020 06:56 AM



A staffer at a Zhejiang factory tests workers' body temperatures before they enter the plant.

Yao Tong, a quality inspector at Foxconn's factory in Shenzhen, never expected his Lunar New Year holiday to drag on for 44 days when he headed home to Hunan in January. Like most

What prevents SMEs from returning to work?

- Employees self-isolation for 14 days
- Lack of financial support
- Supply chain disruption

Dilemma for Chinese SMEs: Resume Business But Risk Spreading Virus

By Luo Guoping, Zhao Xuan and Denise Jia
Feb 28, 2020 06:02 AM



A shopkeeper wearing mask is waiting for customers at a liquor store in Beijing on February 25. Photo: Bloomberg

Less than one-third of Chinese small-to medium-sized enterprises (SMEs) have returned to work as of Wednesday and many companies are struggling to get financing to survive the Covid-19 epidemic.

As of Wednesday, 32.8% of 18 million Chinese SMEs have resumed

Where to find accurate data and information?

- 40% back-to-work rates VS 75% electricity consumption
- Postal express 92.5% resumption VS FTL 68.1% and LTL 45.3%
- Why people don't tell the truth

Lights Are On but No One's Working: How Local Governments Are Faking Coronavirus Recovery

By Yuan Ruiyang and Isabelle Li
Mar 04, 2020 08:28 PM



Workers at a factory in Tianjin's Xiqing district on Feb. 19. Photo: IC Photo

Local companies and officials are fraudulently boosting electricity consumption and other metrics in order to meet tough new back-to-work targets as the spread of Covid-19 in China wanes, a Caixin investigation has found.

How tech companies help

- 3 ranks of health certifications by Alipay
- 800 “mini Apps” provide public services on WeChat
- 10,000 schools broadcast classes on Dingding
- 40,000 people use Wuhan online hospital to ask questions



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