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Global Insecurity Boosts Investment in National and Local Supply Chains

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Apple, the world's most valuable company, prides itself on the simple elegance of its products.

Just as you don't see the swan's legs paddling furiously under the surface—only the body making its serene way across the surface of the water—so, too, does an Apple product buyer never see the effort that goes into making each one. They just see the end product in all its functional glory.

In fact, a great deal of furious effort goes into Apple production, all around the globe. The company's 2020 supplier list contained 204 enterprises that are spread across 43 countries and six continents. And Apple is hardly alone.

Global supply chains have been a key part of the world's economic growth over the past decades, enabled by free trade agreements, advances in technology and transport, and the rise of Asia epitomised by China's entry to the World Trade Organization in 2001. And it isn't just the giants: medium and small enterprises often have surprisingly long supply chains too.

For the first time, though, there is a sense that the tide might be turning, if only a little. Even before Russia invaded Ukraine, the vulnerabilities of global supply chains were becoming painfully apparent.

During the COVID-19 pandemic, it wasn't only essential medical supplies that ran short around the world. Semiconductors and various other goods and materials were also hard to come by, as global movements became restricted, production was hit by stay-at-home orders, and demand patterns changed in line with working from home. The need for personal computers and other technology soared; unspent savings, generous state subsidies, and no outlet for spending on travel and entertainment led to rocketing consumption of goods.

For an increasingly global, free-trade oriented economy, it was something of a shock. And it, combined with the need to stimulate growth in the wake of expensive COVID-relief measures, has sparked a wave of new interest in beefing up domestic supply chains.

As usual, the eyes of the world are on the United States, the world's biggest importer. COVID-19 caused the U.S. trade deficit in goods and services to rise sharply—from just under USD 600 billion in 2019 to USD 653 billion in 2020 and USD 845 billion in 2021. In truth, however, the U.S. has long bought more than it sold. Not since the mid-1970s has the U.S. had a trade surplus, even during an export boom in the late 1980s. This situation is despite selling more services than it buys from the rest of the world. The U.S. trade deficit is caused solely by its reliance on foreign goods.

There is also the matter of where the U.S. gets its imports. China is at the top of that list. In 2021, according to data from the U.S. Census Bureau, the U.S. imported GBP 526 billion worth of goods and services from its only real rival as the world's leader, while exporting just GBP 192 billion in return. That gap alone accounts for more than a third of the U.S.'s total trade deficit.

Mexico and Canada are second and third on the list of largest exporters to the U.S. But the rest of the top 10 are all in Europe—Germany, the United Kingdom, and Ireland—or Asia—Japan, South Korea, Vietnam, and India.

Put simply, the U.S.'s biggest trade partners are a long way away, and the biggest of all is a global rival with whom relations have become decided frosty.

Anyone who doubted that politics would be allowed to interrupt an internationalist economic consensus got a rude awakening with the Russian invasion of Ukraine, and subsequent crisis of energy in Europe and cereal crops—in Africa in particular, but also everywhere, as two countries supply about 12% of all calories consumed in the world.

The U.S. is changing, though.

Last summer, the White House published a comprehensive plan to boost production at home to tackle the problem of fragile supply chains.

COVID-19 recovery spending has included huge sums to stimulate growth and boost research and development, with this summer's technology bill alone putting USD 52 billion into semi-conductors to lower dependency on Asian suppliers. Neither is the money for purely theoretical research, as USD 39 billion has been set aside as subsidies for factories and equipment.

The Chips Act is not unique. Indeed, other legislation—such as the Renewing Investment in American Workers and Supply Chains Act—would improve the tax treatment of investments in structures, such as factories and warehouses that face punitive U.S. tax penalties, as another way to boost U.S. competitiveness. Lastly, the recent Inflation Reduction Act included USD 369 billion of climate and energy spending, including up to USD 20 billion to support new electric-vehicle factories.

Such interventionist industrial policy has been seen as anathema by previous U.S. presidents; however, the world has changed. Policymakers in the U.S. now believe that given the current geopolitical trends, the lingering and unstable COVID-19 pandemic (and different countries' response to it), and global inflation, there is a greater need to invest in U.S. manufacturing and research to diversify dependency on foreign supply lines.

It is notable too that this effort is bipartisan. With the U.S. Congress set to partially change parties come January, the policy to shore up its supply chain security will likely continue be in the spotlight for some time.

The results of such spending will take time to filter through, but it is notable that the latest U.S. Census Bureau figures show that, in August, the U.S. trade deficit fell for a fifth successive month.

In addition, during President Joe Biden's first year in office, the economy added 367,000 manufacturing jobs—the most in nearly 30 years.

Neither have the U.K. and the European Untion been sitting on their hands. Prior to the COVID-19 pandemic, both have been aware of potential weaknesses in global supply chains.

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In the U.K., the emphasis on national supply chains has become even more important since Brexit. Balfour Beatty's Future Ready report highlighted the need to create strong local supply chains. Its seven-point plan for developing a strong local supply chain includes:

- The requirement for robust data on the current landscape; the setting of stretching targets for improvement; and effective measurement against those targets.
- Commitment to ambitious spending pledges with subject-matter experts (SMEs), and to collect accurate data on the size and location of businesses it is spending with.
- Visibility of future pipelines of work for the supply chains from tier 1 contractors, as well as from the public sector, to give them the confidence to invest in skills, innovation, and new equipment.
- Public sector bodies and large contractors working together to improve the overly bureaucratic procurement processes, which can be a barrier to SMEs winning work.
- Framework arrangements to increase opportunities for SMEs, either directly or via the supply chain, if those operating the framework make it a requirement to prioritise buying locally and the contractors involved deliver on their commitments.

Earlier in 2022, Balfour Beatty published its **"Greening the Supply Chain"** report in partnership with the Supply Chain Sustainability School. The report highlighted the importance of bringing in supply chain partners earlier to put in place the best, low carbon solutions and create robust measurement and up-to-date reporting standards to help drive progress.

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