



By Michael Chertoff & Daniel Nardello

Global Realities: How to Intelligently Rethink Supply Chains

The COVID-19 pandemic has made real for many US companies a concern long held by US national security experts: for industries dependent on key materials solely manufactured in China, the country is a single point of failure, where any breakdown will derail the supply chain. Further, China is acutely aware that downstream supply disruptions are amplified during a global pandemic and is willing to exploit this, tipping the scales of power in its direction. Thus, dependence on a single manufacturing hub becomes a threat to both business and nation.

The modern global economy is built on cheap supplies and tight production schedules. But efficient just-in-time delivery has eroded component stockpiles and stiffened the manufacturing process into one unable to absorb even a short-term disruption. The COVID-19 crisis and China's opportunism have been wake-up calls to identify and address supply chains' single points of failure, but strategic assessment of vendor vulnerability is not a new concern.

History provides some guidance. During World War II, planners on both sides of the conflict weaponized the strategic impacts of supply chain disruption. Germany attempted to strangle Britain by cutting off North American supplies with explosive U-boat disruptions to the transatlantic supply chain. Economists for the US intelligence apparatus charted the interdependencies of the German industrial base to help guide the Allied bombing campaign. Their analysis prioritized targeting ball bearing factories above other targets because they were vital components of nearly all German armaments. The war forced the US to forge an almost exclusively domestic supply chain. Since then, our nation's evolution into a service-based economy, largely dependent on foreign raw materials and cost-efficient parts, means that for most companies today, shifting to US suppliers is unlikely to be a sustainable option.

President Trump recently invoked the Korean War-era Defense Production Act to compel US companies to make personal protective equipment and other supplies to combat COVID-19—a threat to more American lives than any battle in our history to date. The world's adoption of a wartime footing to fight the virus has led to public-private innovation not seen since World War II. Ford Motor Company repurposed factories to produce respirators and masks, and drug maker AstraZeneca and Oxford University are collaborating to develop a coronavirus vaccine.

As companies, governments, and multinational organizations respond to the pandemic, they also must

plan for the next sudden global crisis, identify weak links in their supply chains, and arrange for alternate suppliers to remove single points of failure. They must both assess the extent to which Chinese suppliers have returned to prior production levels and find and contract with new providers to reduce key-supplier risk. Understanding the reality in China will require reputable on-the-ground sources, as Chinese economic data, like its medical statistics, are, unsurprisingly, suspect. Even today, the best way to determine if a factory is running is to observe its output. Amid a global travel shutdown, companies will need to rely on trusted sources in China to get an unbiased picture of economic output and a potential COVID-19 resurgence, especially after China's crackdown on US journalists from reputable news outlets.

History has shown that forging solid supply chains fortifies our businesses and protects the greater economy against actual and imminent threats. It also demonstrates that inaction can be disastrous. In the past, German U-boats catalyzed a domestic supply chain pivot in the US. Today, as our focus shifts to restarting the economy, we must preempt China's propensity for controlling exports and data with an immediate risk-based approach to diversifying the manufacturing supply chain base and evaluating new partners.



Michael Chertoff is the former Secretary of Homeland Security and is the Executive Chairman of The Chertoff Group, a global risk advisory firm.

Daniel Nardello is the Chairman and CEO of Nardello & Co., a global investigations firm.

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