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COVID-Induced Supply Chain Issues

Topic Background:

The COVID-19 pandemic has demonstrated the fragility of international supply chains and import practices; shutting down a supply chain for any reason can cripple the economy for weeks.

High inflation and a decrease in economic growth are strictly related to supply chain disruptions. This piece reflects on what appear to be the main causes of global supply chain disorder, and that international free trade and the self-regulating market are insufficient to alleviate the crisis[1].

Overcoming these difficulties will require a transnational perspective that envisages the coordination of socio-legal, economic, and political interventions along all phases of the supply chain. Doing so means paying due consideration to the different interests of stakeholders interacting at a domestic and transnational level. Although the international exchange of goods will remain a defining element of the global economy in the immediate future, a lesson that arises out of the current crisis is that each state must rethink and redesign their main economic processes and industries to cover the most basic needs of their population and to mitigate instability[2].

With supply chains threatened, how can developing countries ensure the well-being of their own people when even developed countries can't? Should they strive to increase their trading power and redundancy with their regional neighbors to achieve

[1] *Understanding Supply Chain Disruptions During the COVID-19 Pandemic*.
[2] *Understanding Supply Chain Disruptions During the COVID-19 Pandemic*.

cooperative self-sufficiency, or should they invest domestically in key industries, reducing their reliance on imports in the first place?

General History:

While a fast pivot to growth is good news for businesses and workers, it also creates challenges. Entire industries that shrank dramatically during the pandemic, such as the hotel and restaurant sectors, are now trying to reopen. Some businesses report that they have been unable to hire quickly enough to keep pace with their rising need for workers, leading to an all-time record 8.3 million job openings in April. Others do not have enough of their products in inventory to avoid running out of stock. The situation has been especially difficult for businesses with complex supply chains, as their production is vulnerable to disruption due to shortages of inputs from other businesses[3].

Another impact of the shortages has been abrupt price increases. Between May 2020 and May 2021, prices of commodities tracked within the Producer Price Index rose by 19 percent, the largest year-over-year increase since 1974, in part reflecting base effects. Some increases have been especially dramatic. Facing a shortage of lumber, homebuilders briefly sent prices to $1,711 per thousand board-feet last month, an amount that implies a typical 2,000-square-foot house would require more than $27,000 in framing lumber alone, relative to a lumber bill of about $7,000 before the pandemic. Lumber prices have now rapidly come back down, falling 38 percent from their record high, in an early sign that some shortages may be short-lived[4].

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[3] *Why the Pandemic Has Disrupted Supply Chains*.
[4] *Why the Pandemic Has Disrupted Supply Chains*.

In the past, many industries have been surprised by strong demand and caught with too little inventory of specific goods. Others have been hit with a supply shock due to a crop failure or a natural disaster which took key factories temporarily offline, such as after the 2011 earthquake in Japan. In many such cases, markets made their way back to equilibrium relatively quickly[5].

[5] *Why the Pandemic Has Disrupted Supply Chains*.

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