

# Intelligence MEMOS



From: Daniel Schwanen and Glen Hodgson

To: Canadians Concerned about COVID-19's Economic Impact

Date: April 9, 2020

Re: **THE CURRENT PANDEMIC AND LONG-TERM THREATS TO SUPPLY CHAINS**

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“Know your customer” is a familiar rule in investing and finance. Even before COVID-19, however, the world was moving to a “know your supplier” requirement for supply chains, movement of people, and data.

The pandemic – with some countries preventing the export of supplies and crucial equipment – will accelerate this trend toward gaining certainty that your supplier will be there for you, whether by government fiat or simply out of good business sense between trading partners and suppliers.

COVID-19 has revealed the critical importance of functioning international supply chains, notably for healthcare supplies and food. It is clear that some jurisdictions approach this cooperatively, recognizing that we will all do better that way. Others are willing to disrupt the international chains to secure, even seize, critical supplies, with little regard – or even understanding – for what this approach might mean for their own supplies or businesses a few months down the road.

The implications of the shift to a “know your supplier” rule that goes far beyond traditional concerns about labour and environmental practices, are vast. It applies to health and food emergencies, and much else. It will affect nations’ approaches toward trade, migration, head offices, foreign investment, transportation, communications, and the digital economy. In the long run, considerations of whether it is safe and reliable to do business with specific suppliers will affect entire industries such as travel, as well as the location of production facilities and selection of suppliers of critical health products and equipment.

It is natural for citizens to demand that their governments ensure continuity of critical supplies. Nevertheless, the perceived need for governments to “do something,” when they are in fact under-prepared, can lead to myopic actions.

The domino effect of restrictions imposed on the fly by governments around the world can only make global supplies of critical goods less plentiful, less reliable, and more costly.

The European Union and the United States, for example, are exercising their powers to restrict the export of medical equipment, with the US also making federal financial help to states conditional on their maximizing their domestic purchases. Such policies raise the cost of addressing the pandemic. Canada specifically will be hurt by those US policies.

Canada could retaliate – in many ways Canadian products and workers are just as essential to the production of US critical supplies as the reverse. But Canada’s long-term interests are not served by encouraging the spread of mercantilism and tit-for-tat approaches.

Internationally, a hopeful model, is the agreement Canada recently [signed](#) with a number of (smaller) economies to maintain open supply chains in the face of the COVID-19 emergency.

What lessons can we learn from the current circumstance? First, analysis of supply chains and the risk of low inventories or chokepoints should be an ongoing exercise. Second, it appears that authorities did not follow some important recommendations from past crises, notably the 2003 SARS outbreak, which gave rise to no fewer than three official reports.

Surge capacity for personal protective or other equipment, and coordination of disease tracking and surveillance were all strongly recommended.

Authorities should be continuously be called into account on their choice to heed, or not, relevant recommendations.

Next, we need to ask what tools are available to governments, should supplies become inadequate or vulnerable? How can governments respond to barriers put up by outside jurisdictions, or even the inability or unwillingness of Canadians to provide services essential to ensuring supplies?

The goal is long-term policies in sectors vulnerable to disruption. These might include: policies to ensure domestic supplies are sufficient to ensure domestic needs in times of crisis; plans for a quick retooling of manufacturing capacity to meet urgent needs; the development of arm’s-length ways of ensuring critical services to avoid putting many front-line providers at risk; and federal-provincial cooperation mechanisms.

In addition, Canada needs to build alliances with like-minded countries to maintain open international supply chains. This could mean mutual strategies to address threats among the alliance, and pledges of assistance to individual members. Such alliances would supplement and work in concert with existing and future trade agreements.

Efficient supply chains are crucial to delivering high and growing standards of living, but they need to be resilient and secure. We anticipate some supply chains will become shorter, better defined, and complemented by rethinking business strategies to ensure continuity at the local level in individual markets. That would be a fair price to pay to ensure that Canadians continue to benefit, and benefit safely, from international and national commerce.

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