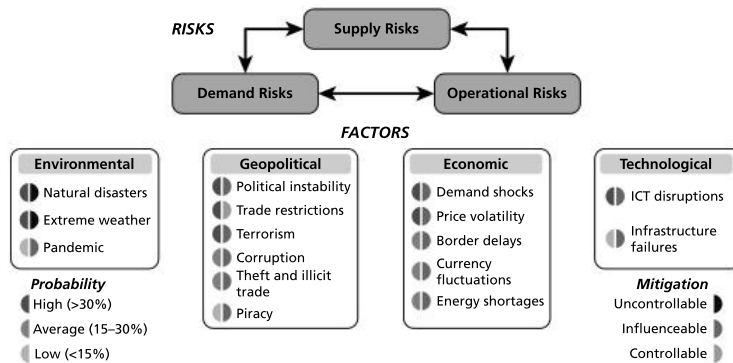


Threats to individuals and businesses (2)

RISKS TO THE GLOBAL SUPPLY CHAIN



Risks to global supply-chain flows

There are many risks to global supply-chain flows including risks on the supply and demand sides and operational risks.

Supply risks refer to the ability to meet the demand for goods whereas demand risks refer to the changes in demand, possibly due to currency fluctuations or political unrest. Operational risks refer to the transport infrastructure required for delivering the goods.

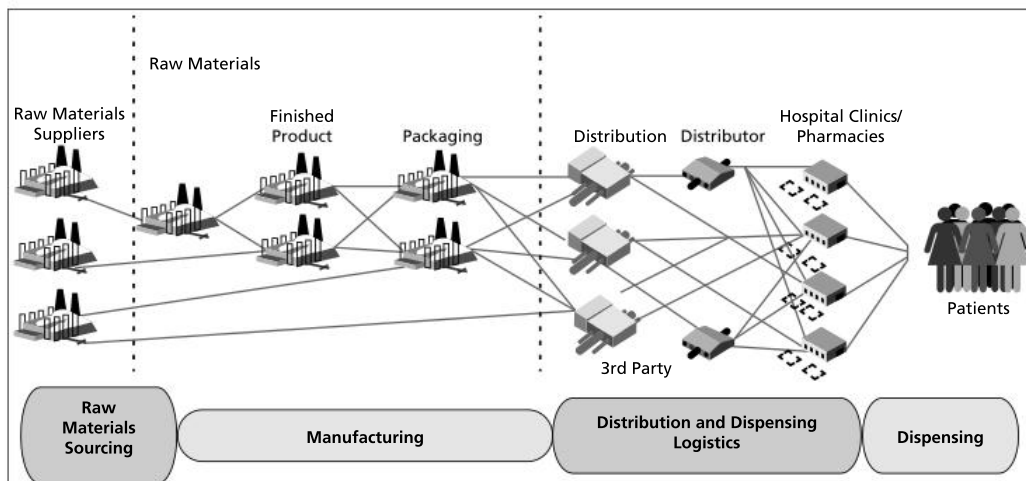
Supply-chain risks are affected by many factors, including environmental, geopolitical, economic, or technological:

- Environmental factors include natural disasters, extreme weather events and epidemics. Floods in Bangladesh regularly disrupt the supply chain there, while the outbreak of Ebola in West Africa limited the movement of people and goods to and from the region. The 2011 tsunami that affected Japan had a major impact on the motor industry: up to 150,000 fewer cars were produced in the USA as a result of disruption of the supply chain for parts.
- Political factors include protectionism, trade restrictions, and conflict, all of which have a major impact on the

supply chain. Supplies of goods from the Middle East and North Africa were severely disrupted at times following the Arab Spring protests. Governments with poor political or economic stability may take decisions (such as resource nationalism) that cause much uncertainty among investors. The UK's decision to leave the EU may lead to major changes in the supply chain.

- Economic factors include currency fluctuations and trade restrictions imposed by governments. Debt crises in Europe among the PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) provided much economic uncertainty to risk managers.
- Technological factors include disruption to transport networks and ICT networks. Transport infrastructure failures are unusual, but ICT reliability is an issue.

Managing supply chains is difficult. A survey in 2013 found that more than three-quarters of companies had experienced supply-chain disruption within the previous two years.



EXAM TIP

Responses to questions on risks to supply chains benefit from named examples connecting the risk/causes of risk with the disruption, for example, a named event/product chain/supply chain being affected.

CHECK YOUR UNDERSTANDING

- Briefly explain how physical factors may disrupt global supply chains.
- Briefly explain how political factors may disrupt global supply chains.