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50 SHADES OF 'NEW NORMAL'

**Whipping Companies to
Embrace an Alternate
Societal Lifestyle**

+
CRAZYNOMICS

+
**GLOBAL
INTERCONNECTIONS**



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50 SHADES OF 'NEW NORMAL': THE CLASH OF GLOBAL INTERCONNECTIONS (PART 3)

Introduction

Part One of this series covered the political and social 'alternate reality' that the world finds itself in. In **Part Two**, it was shown that the traditional macroeconomic policies that worked in previous crises could no longer be relied upon as, there was evidence of the emergence of what can only be described as 'Crazyonomics'.

In this concluding Part Three, the impact of COVID-19 on various global interconnections, from logistical supply chains that drive our commerce, to physical weather patterns that drive our climate are explored. When the pandemic tsunami hit, the seamless man-made supply chains that could be tapped by both governments and large and small companies came to a grinding halt. In terms of the world's natural logistics of its weather patterns, there was some respite as the emission of greenhouse gases reduced when countries went into 'lockdowns'. However, these very lockdowns have caused a significant increase in plastic pollution in terms of

throw-away masks and take-out food containers — most of which have found their way to our rivers and seas, where the logistics of ocean currents take such pollution to all parts of the world.

The World is No Longer Flat

When Thomas L. Friedman claimed in 2005 that "The World Is Flat", it was a metaphor for viewing the world as a level playing field in terms of commerce, wherein all competitors have an equal opportunity.[i] Of the ten "flatteners" that he saw then as levelling the global playing field, three of them will require reimagining post COVID-19. These are:

- **Outsourcing:** where service and manufacturing activities are split into components that can be subcontracted and performed in the most efficient, most cost-effective way.
- **Offshoring:** where a company's manufacturing or other processes are



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relocated of to a foreign land to take advantage of less costly operations there; and

- **Supply-Chaining:** where technology is used to streamline sales, distribution, and shipping into a seamless supply chain much like how a river delivers water.

It is now clear that it was this very 'flatness' that initially caused the pandemic to spread at warp speed from China to every corner of the world via Air Travel. When governments finally reacted and closed their borders, it was again the 'flatness'



that resulted in scarcities of essential supplies as most of these were being sourced from China. The pandemic, which originated in China, initially led to government-mandated factory closures which shut down China's manufacturing base. Many suppliers temporarily ceased production and logistics providers struggled with transporting goods, particularly across borders. This reinforced the risks for multinationals of being overexposed to one source of supply, and, as the pandemic spread, revealed how dependent the rest of the world had become on China for both the most basic and also the most critical of equipment and supplies, including medical supplies and equipment.

In the wake of the virus-induced supply chain disruptions, some experts have been quick to blame '*Just-in-Time (JIT) manufacturing*', citing modern manufacturers' obsession with lean supply chains as the culprit. Manufacturers around the world, relying on JIT supplies for their basic components for production, could not manufacture as basic supplies dried up. Supply shocks like pandemics highlight how interconnected the supply chain structure is. Your supplier might not be in the affected areas but if their raw material is in an affected region, then you will be affected too.

It must be remembered however that JIT is a 'pull' manufacturing system, where manufacturing starts only when an order is received. No pull system can produce for a future event — because pull systems do not recognise future events; they only meet current demand needs. Pull systems like JIT are responsive, not predictive.

It is the 'push' systems that have sales forecasts and make inventory to meet the predicted demand. But even the best of forecasts, using big-data and other analytics, did not predict the global impact of the COVID-19 pandemic, and were also caught short. Some had enough inventory, but nowhere to send!

Further, one of the key reasons to implement a JIT philosophy is to reduce inventory (ideally to zero) as holding inventory has significant costs. This

includes the *financing costs* of holding inventory. However, if interest rates are effectively zero (or even negative), then a very large component of inventory holding costs are eliminated. In the 'new normal' companies should be urged to hold supplier inventories as consignment stocks in their own warehouses. Those that had already implemented this were caught less 'off-guard' by the supply chain disruptions that ensued; and were able to continue operations under JIT conditions until replenishments arrived.

The pandemic's disruption to supply chains has also added an edge to the previous discussions about diversifying and re-shoring supply chains and is producing some significant action. The Japanese government has recently set aside \$US2.2 billion to provide incentives for Japanese to "re-shore" activity from China and has offered a smaller amount to companies that relocate production elsewhere. The US has indicated that it is prepared to spend a similar amount to Japan to promote the re-

shoring of manufacturing activity and jobs; with Vietnam, Taiwan, Mexico and Europe being the main beneficiaries.**[ii]**

Most Western economies, including Australia, are contemplating creating domestic manufacturing of products such as essential goods, personal protection equipment, medical technology and pharmaceuticals previously sourced from China.**[iii]**

In the near term, China's economy cannot be easily decoupled from America's, let alone those of the rest of the Western world. There would be enormous costs and dislocations for companies to disengage from China and the sheer size and growing affluence of China's domestic market are too seductive for western companies to ignore.

However, the 'new normal' will be that the world will no longer be that flat anymore.



Climate Change: You Can't Do Business on a Dead Planet

Following the pandemic is like watching the climate crisis at warp-speed. Neither the virus nor greenhouse gases care much for borders, making both menaces global. Both put the poor and vulnerable at greater risk than wealthy elites and both demand government action on a scale hardly ever seen in peacetime.

The two crises are not only similar in impact, they also interact. Locking down the economy has led to massive cuts in greenhouse-gas emissions in most big cities around the world. COVID-19 has resulted in the biggest carbon crash ever recorded. No war, no recession, no previous pandemic has had such a dramatic impact on emissions of CO₂ over the past century as COVID-19 has in a few short months. Multiple sources indicate we are now living through an unrivalled drop in carbon output. The *International Energy Agency* expects global industrial greenhouse-gas emissions to be about 8% lower in 2020 than they were in 2019, the largest annual drop since the second world war.

However, even though we will see a massive fall this year, the concentrations of CO₂ that are in the atmosphere and warming our planet will not stabilise until the world reaches net-zero. This is unfortunately the inconvenient truth about the climate crisis. It is much too large to be solved by the abandonment of planes, trains and automobiles. Even if people endure huge changes in how they lead their lives, this sad experiment has shown, the world would still have more than 90% of the necessary decarbonisation left to do to get on track for the Paris agreement's most ambitious goal, of a climate only 1.5°C warmer than it was before the Industrial Revolution.

However, there is one glimmer of hope. Whilst the pandemic reveals the size of the climate challenge ahead; it also creates a unique chance to enact government policies that steer the economy away from carbon at a lower financial, social and political cost than might otherwise have

been the case. Rock-bottom energy prices make it easier to cut subsidies for fossil fuels and to introduce a tax on carbon. Such a tax, when added to the depressed oil prices, will appear seamless to consumers at the pump; as it will merely bring the price up to pre-COVID-19 levels. Such a tax will also enable renewable energies to remain price competitive. Also, the revenues from a carbon tax over the next decade can also help repair battered government finances.

Carbon prices are not as popular with politicians as they are with economists, which is why too few of them exist. The lessons (hopefully) learned from the COVID-19 indicates that their time has come. A relatively small push from a carbon price could give renewables a decisive advantage—one which would become permanent as wider deployment made them cheaper still. There may never come a time again when carbon prices could be introduced without much political resistance; and be able to achieve so much so quickly.

Oil Prices Go Negative: I Will Pay You to Take My Oil

The investing world was gobsmacked when oil futures went negative in April 2020. The new normal of restricted air travel, city lockdowns and work-from-home culture created such a drop in the demand for crude oil that storage capacities around the world started filling up fast. Onshore tanks in most parts of the U.S. were at capacity, and the rest of the world was not far behind.

If refineries ultimately do not want oil, it has little to no value. If a supplier has crude oil and nowhere to put it, it can have negative value. This is what happened in April.

Oil supertankers became floating storage bins, hoping for prices to go higher in the coming months. The OPEC+ and G20 production cuts started on May 1st, but with many countries facing a second wave of the pandemic, prices remain depressed. The industry is facing unprecedented demand, job and wealth destruction. Yet

some continue to pay for the same barrel of oil three times. They spend to take it out of the ground, spend to move it somewhere else, and spend to store it somewhere, perhaps even back in the ground.[iv]

Major oil companies are reporting massive losses. *Chevron Corporation* reported on July 31 2020 a net loss of US\$8.3 billion for the second quarter due to a lower commodity price outlook. It was its worse loss since 1989. Not only oil companies, but all businesses that are at the heart of the fossil-fuel economy — oil and gas firms, steel producers, carmakers—are already going through the agony of shrinking their long-term capacity and employment.

Such upheaval, as painful as it is for those affected, is tailor-made for investment in climate-friendly infrastructure that boosts growth and creates new jobs. Low interest rates make the bill smaller than ever. Over the past decade the costs of wind and solar power have tumbled, but not enough to shift consumers away from fossil fuels. The COVID-19 pandemic has changed market sentiments. Today, both businesses and individuals are actively seeking alternative energy alternatives in such large numbers that it makes worthwhile in investing in the infrastructure to deliver such energy.

Pandemic of Plastic Pollution: Pity the Oceans!

Consumption of single-use plastic may have grown by 250-300% since the coronavirus took hold, according to the *International Solid Waste Association (ISWA)*, which represents recycling bodies in 102 countries. Much of that increase is down to demand for products designed to keep COVID-19 at bay, including masks, visors and gloves. It is forecasted that the global disposable-mask market will grow from an estimated \$800m in 2019 to \$166bn in 2020.[v]

Staggering though such figures are, personal protection is only part of the story. Lockdowns have also led to a boom in e-commerce. Activity on Amazon's website, for example, had a 65% increase on last year. Much of what is bought online

are often packaged in plastic comprising several layers. Whilst this keeps the contents safe in aeroplane holds and on delivery lorries, it also makes it nearly impossible to recycle the plastic.

In addition to the public's increasing appetite for single-use plastic, there also appears a diminishing inclination to recycle even materials that can be reused. An unwillingness to recycle might be explained by people's nervousness about venturing out to put waste in recycling bins. Or it might just be that lockdowns have put more pressing matters into their minds, prompting a slip in their diligence.

COVID-19 has led to a glut in plastic waste in other ways. As the pandemic caused a crash in the oil price, and because petroleum is a major constituent of most plastics, they have become cheaper to produce. That in turn give firms less incentive to use the recycled stuff. Another reason for the growth of plastic rubbish has been caused by the fact that municipalities around the world have curtailed their recycling schemes over fears about spreading the contagion (the virus can survive for about 72 hours in plastic).

All of which means that much of the plastic produced this year is ending up either in landfill sites or being incinerated. Landfills, especially in poor countries, are often little more than open dumps. They are responsible for some of the biggest leakages of plastics into oceans, because the material is light, it is easily swept by rain or wind into waterways.

Summary

In this Part 3 of the article, the final 6 shades of the 50 shades of 'New Normal' are explored. These are *Changes to Supply Chain Logistics (World is No Longer Flat); Questioning the JIT Philosophy; Decoupling China; Climate Change; Negative Oil Prices and Plastic Pollution Pandemics*.

The three parts of the article taken as a whole discuss the 50 shades of 'new normal' that companies have to adopt to, in order to remain competitive in the post COVID-19 world. It shows the interconnections that range from economic, to political, to finance, to supply chain, to sustainability and more. Business strategies can only be developed with an understanding of this new normal external environment, and the opportunities and threats that come with it.

The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive

[i] Thomas L. Friedman (2005), *The World Is Flat: A Brief History of the Twenty-first Century*, Farrar, Straus and Giroux, p. 488.

[ii] Stephen Bartholomeusz (2020), "'Made in China' on the nose as push to tame Beijing gathers pace", *The Age*, July 21, pp.25-26.

[iii] Janek Ratnatunga (2020), "Funding Manufacturing Post COVID-19: A National Security Issue", *On Target*, May 26. <https://www.cmawebline.org/ontarget/funding-manufacturing-post-covid-19-a-national-security-issue/>

[iv] Brian Sullivan (2020), "Why oil prices went negative and why they can go negative again", CNBC, April 26. <https://www.cnbc.com/2020/04/26/why-oil-prices-went-negative-and-why-they-can-go-negative-again.html>

[v] Economist (2020), "Sea of troubles: Covid-19 has led to a pandemic of plastic pollution", *International*, June 22. <https://www.economist.com/international/2020/06/22/covid-19-has-led-to-a-pandemic-of-plastic-pollution>



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