

# Reducing the fragility of our supply chains after Covid-19: time for a policy rethink

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As lock-down measures to combat the Covid-19 pandemic have taken effect, the UK economy has ground to screeching halt. Over 1.5 million individuals nationwide have applied for Universal Credit<sup>[1]</sup>, the Government has enacted wage guarantees to the employed and support for some of the self-employed alike to try and prevent total economic collapse.

This has been particularly felt in advanced manufacturing sectors across the country, with one recent estimate suggesting a drop of 69% of output in the total UK manufacturing sector.<sup>[2]</sup> The composite PMI fell to 37.1 in March, from 53.0 in February.<sup>[3]</sup> Production in the automotive sector has been predicted by the SMMT to fall by 200,000, to below 1.1 million due to plant shutdowns triggered by Covid-19.<sup>[4]</sup>

Working from home is not an option for most manufacturing jobs, which has led to the sector being keenly impacted. As assemblers such as JLR shut down, orders for component manufacturers dry up and there is a cascade effect on the supply chain. Supply chain firms have also shut down, which is why the government's labour retention scheme and other support for business is so critical in keeping capacity in place is so critical.

In the current context, all of these jobs are at risk. Covid-19 entails the prospect of severe disruption to supply chains (as JLR found in trying to import parts from China at the height of the pandemic there). KPMG research has identified that the West Midlands is the most exposed region in this regard, given its dependence on manufacturing and automotive in particular.<sup>[5]</sup>

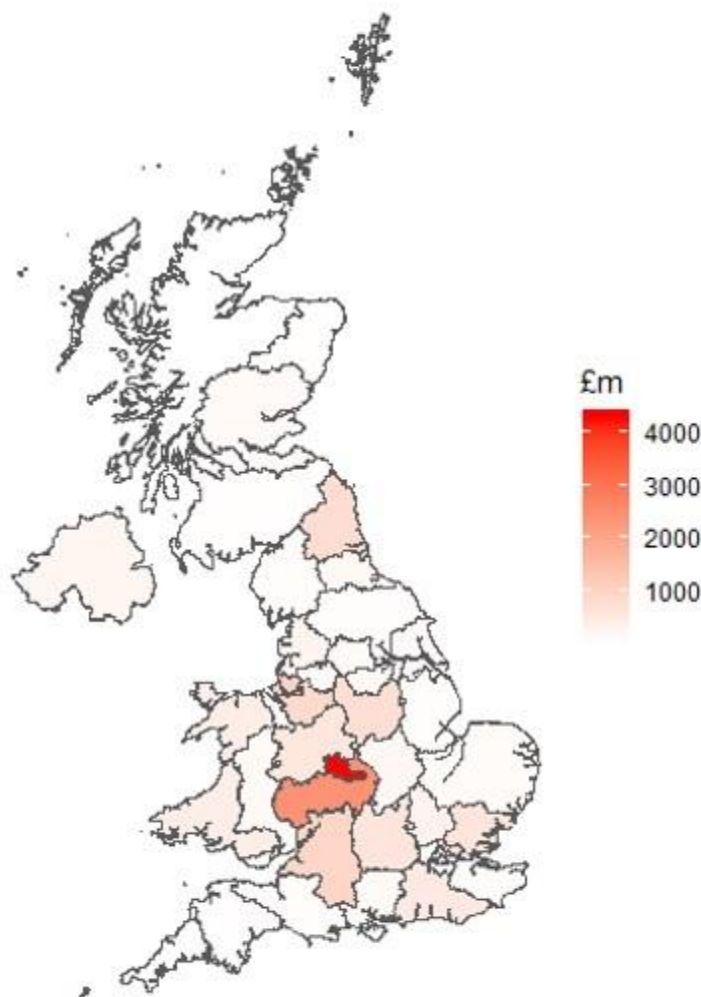
The KPMG work illuminates "*the double hit to the automotive sector – which makes up 6% of the local economy – from factory shutdowns and a collapse in demand for new cars meant that a major sector in*

*the West Midlands would be dormant through the lockdown and take time to recover during the rest of the year.” [6]*

As such, manufacturing makes up considerably more of the West Midlands’ economy than is the case for the UK overall. Within this, the sector is highly specialised in automotive manufacture, which accounts for almost one third of the West Midlands’ entire manufacturing sector’s Gross Value Added (GVA).

Moreover, a significant proportion of the remainder of the manufacturing sector (most notably around metals, but also including some rubber and plastics manufacture) is indirectly linked to this.

Automotive GVA by NUTS2 Region



The sector is also highly international in nature and hence has shown

high vulnerability to the disruption of its international supply chains. This suggests a number of priority policy areas for regional and national government moving forwards to remove bottlenecks to growth. The West Midlands also specialises in advanced metal manufacture, with capital costs and energy prices key concerns.

Nevertheless, the potential clearly exists for a vigorous rebound, whilst many service-sector activities are directly client-facing, implementing social-distancing measures is more feasible (albeit far from easy) for many manufacturers.

It is also reasonable to anticipate a shift in consumer spending towards manufactured products in the event that the market for many consumer services (notably travel, food and accommodation) is likely to remain subdued for some time.

Meanwhile many regionally based manufacturers have joined calls to design and make necessary equipment – whether ventilators or personal protective equipment, showing how strategically important manufacturing is for the economy.

So, after the crisis, there will need to be a re-evaluation of the fragility of long supply chains. This will require reconsideration of more localised sourcing. However, there are major challenges to pushing this along in terms of access to funding, skills, land availability and energy costs as research has shown, and a much more active place-based industrial policy will be needed to achieve this as Centre for Brexit Studies Visiting Professor David Bailey and Lisa de Propriis (2014) have explored. [\[7\]](#)

Building on the region's existing excellence is likely to be crucial, both in terms of the overall efficacy of any interventions and the timeliness of such measures.

In conducting a supply chain and Brexit exposure analysis of the transport manufacturing sectors in the Midlands for the WMCA late last year, what was striking to us was that many of the policy prescriptions recommended in that report even more salience now. Our report highlighted at the time the need for wage subsidies to support downtime, loans/guarantees to businesses and tax relief to help ensure business viability. [\[8\]](#)

We also identified a clear need for increased spending on regional infrastructure to upgrade rail and road networks – particularly the important A14 corridor to Felixstowe and the A34 corridor to Southampton, used by many Midlands exporters.<sup>[9]</sup>

Going forward then, similar issues arise in terms of maintaining production and nurturing our national strategic (business) assets. One is the need to shore up domestic production in the form of reducing reliance on overseas suppliers, if possible – often referred to as “re-shoring” or proximity-based manufacturing. As such, one of the key needs to facilitate regional recovery and resilience is to fully understand the nature of business-level import-export dynamics.

The other is to ensure that our skills base is fit to transition to the “Green Economy” and thereby tackle the problem of climate change. The prospect of further disruptive events only reiterates the importance of training in this regard.

In the wider context, the policy actions necessitated will also contribute to a necessary repositioning of the economy as the long-term challenges of climate change looms. Promoting the region’s manufacturing sector will also contribute to developing capacity to address public health and environmental issues.

In so doing, there needs to be more significant devolution of power and resources to the Region. Covid-19 has completely changed the rules of the game when it comes to acceptable economic policy responses. Gone is the supremacy of neoliberal economic thinking as the world rediscovers the ability of the state to tackle human and economic crises. There is everything to play for..

[1] <https://www.thetimes.co.uk/article/1-5m-more-claims-for-universal-credit-2x60h9ghd>

[2] <https://www.thetimes.co.uk/article/despatches-from-an-economy-at-two-thirds-of-normal-3l5jvjqlld>

[3] <https://tradingeconomics.com/united-kingdom/manufacturing-pmi>

[4] <https://centreforbrexitstudiesblog.wordpress.com/2020/03/31/auto-industry-hit-from-coronavirus-could-be-even-bigger-than-latest-forecast/>

[5] <https://www.theguardian.com/business/2020/apr/22/west-midlands-economy-hardest-hit-from-covid-19-as-auto-sector-stalls>

[6] <https://www.theguardian.com/business/2020/apr/22/west-midlands-economy-hardest-hit-from-covid-19-as-auto-sector-stalls>

[7] <https://academic.oup.com/cjres/article/7/3/379/2864041>

[8] <https://bcuassets.blob.core.windows.net/docs/centre-for-brexit-studies-supply-chain-mapping-exercise-findings-and-results-132248711958081123.pdf>

[9] In terms of our supply chain survey research, we found that firms intensively used the ports of Liverpool, Southampton, Immingham and Felixstowe, in addition to reliance on the Channel Tunnel constituting a major risk factor for supply chains in the West Midlands.