

In collaboration with Kearney

WORLD
ECONOMIC
FORUM

Building Resilience in Manufacturing and Supply Systems in the COVID-19 context and beyond: Latin America Perspectives

REGIONAL INSIGHT
JULY 2020

The COVID-19 global crisis continues to disrupt manufacturing and global supply chains with severe consequences for society, businesses, consumers and the global economy. While the pandemic has reached Latin America later than other regions, its impact is as devastating as elsewhere. With mass factory shutdowns, demand surges for essential goods and shifting consumer behaviour all challenging global value chain flows, this pandemic has surfaced significant questions about near- to medium-term supply chain resilience in the region.

The World Economic Forum has aimed to increase the potential for global and regional public-private action amid the COVID-19 crisis. As part of this effort, the **Regional Action Group for Latin America**, a platform to exchange key global and regional insights and experiences between the foremost government and public and private sector leaders, convened to discuss the industry implications, responses and collaboration to build resilience on manufacturing and supply systems in Latin America. This executive report builds on the Regional Action Group's insights and on the Forum's Platform for Shaping the Future of Advanced Manufacturing and Production activities.

The Forum, in collaboration with Kearney, brought together C-level executives from different industry sectors to identify best responses to the current COVID-19 crisis, in the short term, and help build resilience across manufacturing and supply systems by incubating new business partnerships and public-private cooperation.

As stated in the report [How to rebound stronger from COVID-19: Resilience in manufacturing and supply systems](#) – in which 400 global companies were surveyed – emerging technologies, climate change and geopolitical tensions have already disrupted how value is created and distributed along supply systems, affecting how businesses define their strategies and nations advance sustainable development. COVID-19 is proving to be an accelerator of key imperatives for businesses and further underlines the need to orient the design of global value chains towards “risk-competitiveness”, rather than around optimizing only for cost-competitiveness. This briefing document provides key perspectives captured from interactions with leaders from the region to support the restarting of economies in Latin America.

Global practices and actions to increase resilience

In the first reaction to the COVID-19 crisis, all companies focused on taking care of employees while ensuring business continuity. Surveyed companies are enforcing a number of active measures to protect both physical well-being and mental health, such as the use of personal protective equipment (PPE) (51%), restrictions on employee contact in the workplace (46%), switching employees to working from home (40%) and travel restrictions (37%). Executives from multinationals in Latin America have indicated that they quickly rolled out some of the measures and responses that were developed in other regions during the crisis, leveraging the fact COVID-19 arrived later in the region.

Companies are not only focused on managing the crisis, but already preparing for the post-COVID-19 scenario while drawing key learnings from the pandemic and its impact on global businesses. Leading multinational companies in the region have started to launch strategic initiatives to create more resilient supply chains vis-à-vis the ongoing crisis and are now accelerating their implementation.

Forty-seven percent of executives surveyed indicated a need to overhaul their manufacturing and supply networks to increase future resilience. To make their supply chains more effective and resilient in the medium term, business leaders are looking to de-risk and reduce complexity, increase their use of local suppliers and manufacturing capacities, and diversify their supply base to ensure continuation of supply. This reconfiguration could benefit Latin America, particularly countries that are close to regional supply networks (e.g. Mexico) as industries are taking a fresh look at their supply chain, or favour regions with strong demand as companies are aiming to move manufacturing closer to the point of demand.

Business leaders also noted the crucial role advanced technologies such as artificial intelligence, data analytics, 3D imaging and additive manufacturing play in arming them to face the future and adapt to potential disruptions in supply and demand. An analysis of survey results found a positive correlation between the degree in which companies are leveraging advanced technologies and the supply chains' ability to adapt to the disruption. Leaders indicated a need to double down on this, for instance, to continue to digitize the supply chain in support of better and faster decision-making.

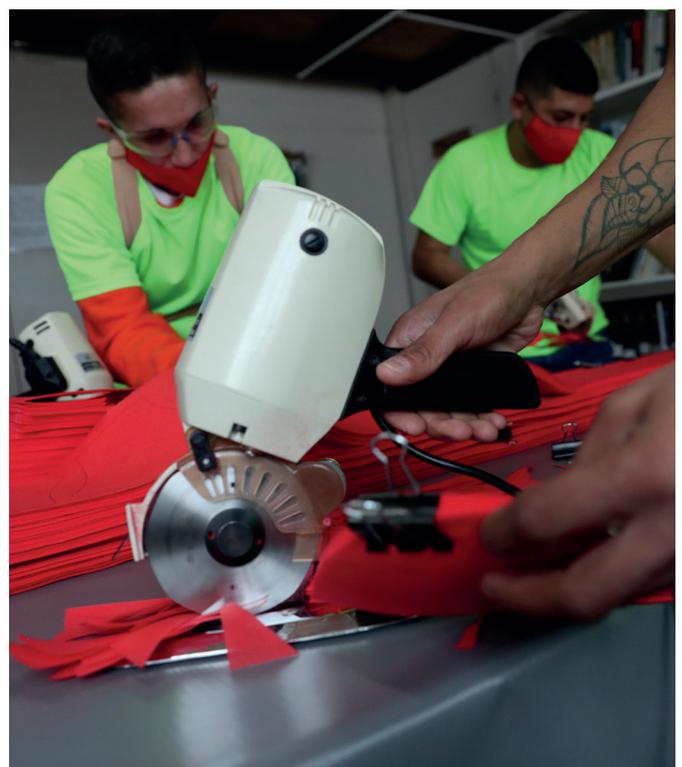
Relationships will also change. Many companies have been supporting their suppliers throughout the pandemic, which has deepened the bonds between them. These vital connections are perceived as an important way to secure supply during turbulent times. New collaboration models are also on the table. Within and across industries, organizations have come together to share practices, come up with new solutions and keep elements of the economy moving. Regional leaders indicated that a key capability in the future will be the coordination between multidisciplinary teams in the supply chain.

Key considerations to understand manufacturing and supply systems in the region

From the exchange with leaders from business, government and academia, useful considerations to understand Latin America's manufacturing and supply system challenges emerged.

1. **Geography matters for manufacturing:** Most manufacturing output is hyper-concentrated with less than 2,000 kilometres in distance between key hubs in Asia, Europe and North America. Latin America does not have this density and hence faces challenges in taking advantage of regional clusters of demand, labour and other resources.
2. **China has become the factory of the world in global supply chains:** During the crisis, the reliance on China has become apparent and countries are now trying to reduce their dependency. However, recalibrating supply chains is a challenge and requires building skills and capabilities that oftentimes have disappeared during the outsourcing process.
3. **Regional integration:** Manufacturing in Latin America is not very integrated, which can reduce the rebalancing potential since companies are predominantly looking for regional competitive strengths.
4. **Rebalancing:** Global value chains have been built over years by companies balancing risk against cost – changing global value chains is a time and resource-consuming process and shifts tend to be driven through strong government support.

The scale, complexity and urgency of the situation mean that no single body can tackle it in isolation. Instead, if industries are to ensure business continuity, protect employees and shore up supply systems for the future, they need to find new approaches, share knowledge, and work together and with the public sector as never before.



Regional challenges and responses

Many companies across the region are faced with great operating costs pressures and maintaining activity under limited capacities due to lockdowns and biosecurity measures, operating in the context of uncertain demand and supply market behaviours, and forced to restructure short- and medium-term priorities and business strategies. Governments are faced with the difficult challenge to protect the health of its citizens while at the same time secure the income for the population along with the economic activity. This requires generating sufficient confidence in the economy to allow companies and individuals to plan their expenses and consumption, maintain employment and payrolls, and plan investments in the medium and long term.

In the case of Peru, for instance, this has included a focus on ensuring the payments chain of companies, especially micro, small and medium-sized ones – which represent 99.8% of all companies in the country and employ 70% of the economically active population – in order for them to access working capital loans, and thus be able to fulfil their short-term obligations with their workers and suppliers of goods and services. In Mexico, the Ministry of Economy is granting loans with optional repayments to one million SMEs and another one million loans to family businesses previously registered in the welfare census, while the Colombian government is making great strides in providing financial guarantees for similar purposes through programmes such as “Unidos por Colombia”, to reference a few examples from across the region

Unsurprisingly, the health value chain has been particularly under stress. To protect citizens' health, governments are striving to guarantee the continuous flow of medical supplies (e.g. oxygen balloons, mechanical ventilators, gloves for medical use) and personal protective equipment. Moreover, this challenge is intensified by the unprecedented global competition over the purchase of tests to detect the virus, as well as mechanical respirators, masks, surgical gloves and other medical instruments. In this regard, many are appealing to regional and international cooperation mechanisms.

Governments in the region are stressing the importance of increased international cooperation to face the crisis, particularly regarding the need to ensure the supply of critical healthcare products, technology, medicines and vaccines. Some initiatives aim to explore possible joint purchases and are calling for multilateral approaches and coordinated action to re-establish critical value chains. Peru, for example, co-sponsored a pledge to ensure well-functioning global agriculture and agri-food supply chains within the framework of the World Trade Organization (WTO), supported also by Brazil, Chile, Colombia and Costa Rica. These mechanisms and initiatives highlight the importance of ensuring the continuous flow of medicines and health products and agricultural and food products.

Additionally, by means of a Joint Declaration in the beginning of April, the Ministers of Foreign Affairs and Foreign Trade of the Member Countries of the Andean Community urged the competent authorities to evaluate possible measures for the joint purchase of medical supplies in order to respond effectively to the needs generated by the emergency that these countries are facing.

In addition to these immediate reactions to the crisis, many regional governments have started to outline plans for wider economic reactivation. For example, in Colombia, a coordinated government effort, including the Ministry of Commerce, Industry and Tourism, has designed a plan to promote the economic reactivation of the country. This includes 13 actions ranging from business transformation for the new normal and economic reactivation for all, to improving innovation and business competitiveness.

Enhancing regional capabilities to increase resilience

Securing the capabilities of companies, mainly small and medium-sized suppliers, is essential across the region so that the supply system, particularly in specialized sectors, can be restored once the pandemic ends. Maintaining experienced and trained staff to avoid retraining costs and assuring reliability in the supply and delivery of inputs in the productive process is fundamental, as stressed by Mexico's Secretariat of Economy. However, regional leaders are stressing the challenges of not only building capabilities related to digital infrastructure and operations, but also to rethink strategic risk models embedded into the business strategies and organizational structures that can prepare governments and companies to manage a future crisis.

In the current context, Latin America is also faced with the need to strengthen regional value chains and leverage sub-regional trade blocs to expand the region's insertion into international markets and reactivate growth, while cautiously minimizing supply chain risks and dependencies. Diverse efforts are aiming to leverage the potential of cumulation of origin rules, foster productive linkages between regional blocs such as the Pacific Alliance and third countries, and consolidate product input matrices. Other innovative initiatives include the Andean Community proposal for a Digital Platform for Andean Trade with a focus on SMEs and prioritizing COVID-19 resilience in the context of the Inter-American Development Bank's Regional Public Goods Initiative. Colombia will play a leading role in these efforts as it takes on the temporary presidency of the Pacific Alliance and the Andean Community.

Public-private cooperation and imperatives for the new normal

The global health crisis has shown that society is expecting companies to be a protagonist in building a better future. Nevertheless, public-private cooperation and integrated multistakeholder dialogue are required to improve the speed, efficiency and equity of implementation.

Amid the COVID-19 crisis, valuable examples of public-private partnerships in Latin America are not only emerging and should be enhanced, but are also highlighting the structural need to strengthen these approaches in the long run. Recent examples include efforts to enable the agile production and delivery of personal protective equipment, revamping communication channels for an agile establishment of industry-specific bio-security protocols and regulations. Governments and businesses need to work together to enable resilience in manufacturing and supply systems. Joint efforts are important to identify the best

policy frameworks and enable sound regional and international productive linkages to enhance competitiveness and provide the right infrastructure. As technology is an increasingly crucial driver of resilience in operations, multistakeholder efforts to promote upskilling and reskilling and ensure fairness in the way technology is applied are also necessary.

Global value chain participation has shown to contribute to growth and prosperity. The World Bank's World Development Report 2020, "Trading for Development in the Age of Global Value Chains", suggests that countries that are more integrated in global value chains boost incomes, create better jobs and reduce poverty. However, many studies, such as [Trade conflict in the age of Covid-19](#), have shown a rise in new protectionist initiatives that could disrupt global value chains. But turning inwards will not help Latin America tackle the health crisis as global cooperation across supply chains will still be critical in the near future to provide economic growth and address social challenges (e.g. to produce and distribute COVID-19 vaccines at scale in Latin America). At the same time, the current context presents an opportunity for Latin America to leverage geographic and cultural proximity to promote greater commercial exchange and the strengthening of regional supply chains and diversified trade, and to potentially benefit from a reconfiguration of international manufacturing value chains as industries revise their supply base.

The long-ranging impact of the COVID-19 pandemic is yet to be understood. However, in discussions with senior executives, the following five consistent imperatives emerged which leaders need to consider in order to prepare for long-term business success.



Rapid tailoring of manufacturing and supply systems to changing consumer behaviour



Agile manufacturing and supply system set-ups enabled by advanced technology



Logistics coordination across and within global value chains



Adoption of new ways of working and governing to increase manufacturing resilience



Shared responsibility and collaboration among companies and authorities to address social and environmental challenges

- The crisis has forced consumers to change their preferences. While it is too early to say what customer behaviour changes will persist, leaders indicated the need for **rapid tailoring of manufacturing and supply systems** to these changes.
- Advanced manufacturing technologies played a key role in a rapid response during the crisis. **Agile manufacturing and supply system set-ups enabled by advanced technologies** will be a focus topic for executives.
- A key element in increasing the resilience of the overall systems is the logistics that connects the different nodes. Companies are doubling down on **logistics coordination across and within global value chains**.
- The unprecedented changes of working lives will lead to **adoption of new ways of working and governing to increase manufacturing resilience**.
- Companies have worked together in new ways with government bodies and other companies in their wider manufacturing ecosystem. Leaders indicated to continue with this **shared responsibility and collaboration among companies and authorities to address social and environmental challenges**.

The impact of COVID-19 on global value chains requires strengthened global cooperation and coordination. The World Economic Forum's Regional Agenda for Latin America and the Platform for Shaping the Future of Advanced Manufacturing and Production, in collaboration with Kearney, will continue engaging leaders across different industry sectors, governments, academia and civil society to strengthen manufacturing and supply chains resilience and to address Latin America's crucial challenges and forward-looking opportunities.

Acknowledgments

The World Economic Forum would like to thank Richard Baldwin (Professor at the Graduate Institute of International and Development Studies) and Alex Liu (Managing Partner and Chairman at Kearney) for their key insights and thought leadership. We also appreciate the contributions of Gustavo Adolfo Meza-Cuadra (Minister of Foreign Affairs of Peru), Jose Manuel Restrepo (Minister of Trade Industry and Tourism of Colombia), Luz Maria de la Mora (Undersecretary for Foreign Trade of Mexico) and Diego Coppel Sullivan (Partner and Member of the Board, Coppel, Mexico), and the members of the Regional Action Group for Latin America and the Platform for Shaping the Future of Advanced Manufacturing and Production.

Forum Team: Felipe Bezamat (Project and Community Lead), Diego Bustamante (Head of Community Development, Latin America) and Thierry Heinzmann, Project Collaborator and Manager Kearney (on secondment to the World Economic Forum).