Supply chain risk in sub-Saharan Africa tops the chart

Supply chain risk in Sub-Saharan Africa remains the highest in the world and continued to increase during the third quarter of the year as South Africa and Nigeria's economies struggled.

André Coetzee

Supply chain risk in sub-Saharan Africa worsened from 5.544 to 5.558 during the third quarter of 2016, as measured by the Chartered Institute of Procurement and Supply (CIPS) Risk Index, powered by Dun & Bradstreet. The Index tracks the impact of economic and political developments on the stability of global supply chains.

Key economies weighed down

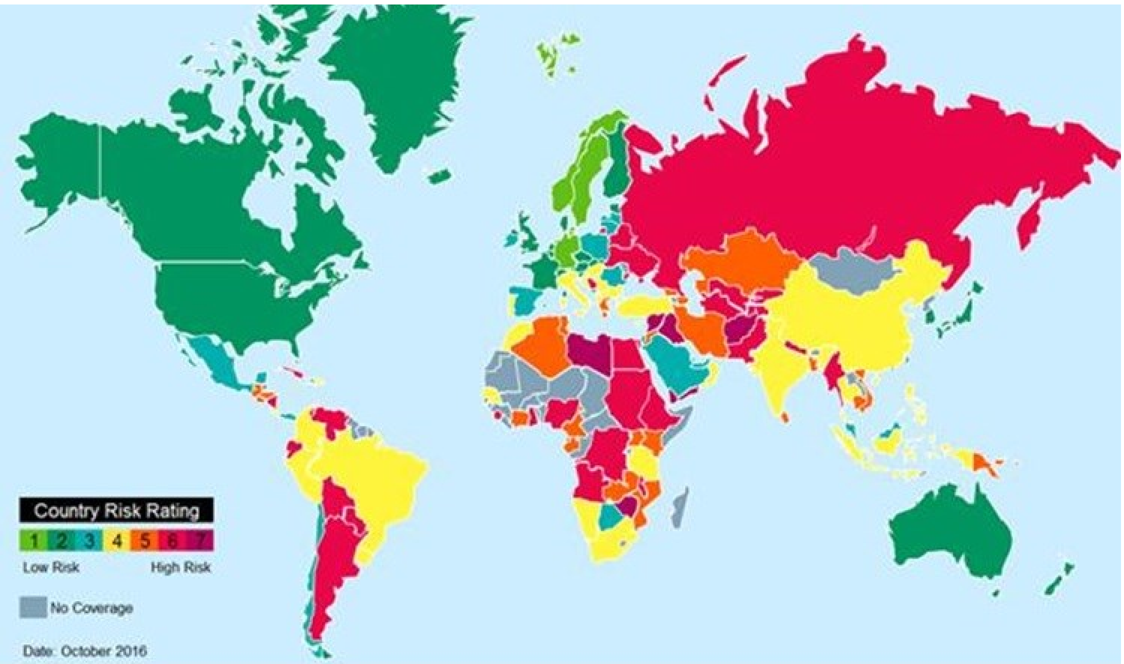
According to the Index, the underlying trend in operational risk for the region is deteriorating as lower global commodity prices and non-economic factors, such as drought and political uncertainty, weigh down key economies. Dun & Bradstreet forecasts that regional growth in sub-Saharan Africa will drop to just 1.5% in 2016, from 5% in recent years, with only a modest acceleration in 2017.

André Coetzee, managing director, CIPS Africa said: “Growth in the region is now a far cry from what we have become accustomed to. Heavyweights like Nigeria and South Africa are facing strong headwinds due to their dependence on commodity export revenues and structural flaws in their economies.

“An extended period of slow growth, along with elevated political risk, precipitated by the ongoing fraud probe against Finance Minister Pravin Gordhan is also weighing on business sentiment. Currently, we forecast real GDP growth of only 0.2% for South Africa in 2016, the slowest it has been since the last recession ended.”

The impact of slower economic growth in China and persistently low commodity prices also goes beyond sub-Saharan Africa. It has not only deepened the cash flow crisis for Nigeria, but also for oil exporters in Eastern Europe and Central Asia, the Middle East and North Africa, damaging payment performance and heightening risks for the supply chains which pass through.

Global supply chain risk grew for the fourth consecutive quarter rising to 81.6 in Q3 2016 from 80.8 in Q2. The figure is the highest since 2013 and has been driven by increases in supply chain risk in sub-Saharan Africa, Western and Central Europe, Eastern Europe, the Middle East and Latin America.



Global supply chain risk Q3 2016

The upward trend in supply chain risk is in part driven by a disintegration of the political consensus over globalisation, with the World Trade Organisation reporting an average of 22 new trade restrictive measures a month in its latest report.

This trend is clearest in **Western Europe**, where risk rose to 2.63 in Q3 from 2.60 in the previous quarter. The uncertainty around the post-Brexit relationship between the UK and the European Union has had a negative impact on trade and business sentiment in the UK and across the region.

In addition, growing disillusionment with globalisation is contributing to political risk. Elections over the next 12 months are expected to see gains for populist parties with France's National Front, Italy's Five Star Movement, the Freedom Party in the Netherlands and the German Alternative for Germany - all sceptical of European integration and hostile towards free trade.

An agreement between Turkey and the EU to manage the flow of migrants from the Middle East has seen some temporary border controls within the common market repealed this quarter, reducing supply chain disruptions. However, with the military situation in Syria worsening and anti-immigration parties gaining momentum, European supply routes remain uncertain.

Supply chain risk in **North America** remains static at 2.101, but both Canada and the USA have seen trade agreements with the European Union stall this quarter. During the run up to the recent election, president-elect Donald Trump has expressed concern about the Transatlantic Trade and Investment Partnership (TTIP), while in Canada the Comprehensive Economic and Trade Agreement (CETA) has been derailed by a regional parliament in Belgium.

In **Eastern Europe** and **Central Asia**, risk has risen to 5.424 from 5.396, following a failed coup in Turkey which is likely to see an increase in interference with businesses. Supply chain risk has also deteriorated in the Middle East and North Africa from 4.406 in Q2 to 4.413 in Q3, where civil war has all but eliminated international supply chains in certain countries.

Asia Pacific has bucked the trend this quarter with supply chain risk decreasing marginally from 3.424 in Q2 2016 to 3.415 in Q3. Australian suppliers, in particular have benefited from rising coal and iron ore prices together with an increase in national defence spending.

Elsewhere in Asia, logistical routes have come under pressure. In South Korea, meanwhile, the world's 7th largest shipping company, Hanjin Shipping, went bankrupt in August, reducing global shipping capacity by 3% and leaving a cargo as large as $14bn unable to dock. The bankruptcy is likely to have wide-ranging impact on trans-Pacific and Asia-Europe supply chains.

New wave of impediments

John Glen, CIPS economist and director of the Centre for Customised Executive Development at The Cranfield School of Management said:
“Supply chain managers are facing a new wave of impediments to the flow of goods across borders. With international trade deals under threat around the world, supply chain managers must be as aware of political risks as they are of natural disasters and economic hardship.

“Skilled supply chain managers are adept at managing the short term supply chain disruptions but with supply chain risk returning to record levels, businesses must be continually vigilant in vetting their suppliers and preparing contingency plans.”

Bodhi Ganguli, lead economist, Dun & Bradstreet commented: “Political and economic uncertainties, such as the extent of the growth slowdown in China, emerging markets’ financial vulnerabilities, the impact of terrorism on cross-border movements, and the fallout from Brexit, continue to weigh on global business sentiment.

“The CIPS Risk Index reflects the general unease about the state of the global economy with its increase in operational risk. Excepting a small improvement in Q3 2015, the CRI has been deteriorating since Q4 2014. We believe the CRI from late 2014 and into 2015 was indicating ahead of time the travails in emerging markets, and the continued failure of major developed economies to escape the slow-growth trap of the post-financial crisis era.

“The full impact of Brexit on the global economy is still unfolding, but in the near term, uncertainty will be elevated, impacting growth. We expect the risk index to drift higher in the next three months.”