

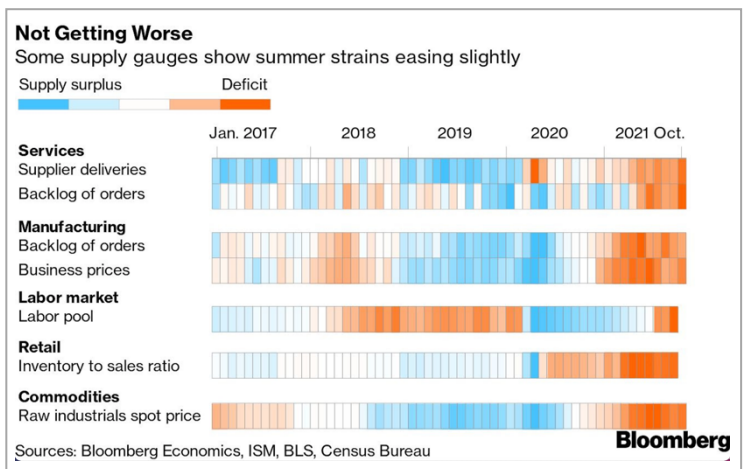
SUPPLY CHAIN SURGES & SHORTAGES

Supply Chain Trends & News

October – November 2021

Logistics

- **Have supply chain strains plateaued for now?** As of late November, supply gauges suggested that strains are, at a minimum, not significantly worsening. Global average ocean freight rates for 40-foot containers have declined for several weeks while the number of containers lingering for longer than nine days at the Port of L.A. dropped by about a third since October ([Bloomberg](#)).



- **Next up: truck drivers.** The shortage of drivers affecting global and local trade may soon eclipse other supply chain issues ([Datamyne](#), [Exiger Client Alert](#)).
- **Copper logjam.** A copper logjam in Chinese ports remains at triple pre-pandemic levels ([Bloomberg](#)).
- **Some corporates see relief in sight.** Electronics contract manufacturers **Foxconn** and **Pegatron** indicated that pandemic bottlenecks will peak in Q4. Toyota and Honeywell each said their semiconductor crunch peaked in October ([WSJ](#)).
- **Three paths.** HSBC economists gamed out three scenarios for when the “Big Crunch of 2021” will end: (1) shipping disruptions ease after Lunar New Year in February 2022; (2) supply challenges subside during H2 2022; or (3) challenges persist throughout 2022 ([Bloomberg](#)).

Climate, Disasters, & Disruption

- **Omicron could disrupt Chinese manufacturing.** A new potentially more contagious—and vaccine-resistant—COVID-19 variant from South Africa, named **Omicron**, surfaced in Europe on November 28th and is expected to spread globally. For its part, **China will likely continue its stringent “COVID Zero” strategy**, as a recent Chinese study predicted a “colossal outbreak” on an unrivalled scale (630,000 cases/day) if China reopened in a manner similar to the U.S. Omicron-driven lockdowns in China and elsewhere could snarl global supply chains yet again, not to mention drive additional inflation ([AP](#), [Bloomberg](#), [Bloomberg](#)).
- **China’s energy crunch eases.** China’s disruptive energy shortage, which was straining the global economy, has improved in recent weeks. Chinese authorities allowed coal-fired power

plants to charge higher prices, using market forces to drive greater use of coal and mitigate shortages ([WSJ](#)).

- **Carbon tariffs.** Developed nations are increasingly considering using tariffs on trade to cut carbon emissions, which would give a competitive advantage to manufacturers in countries with low emissions ([WSJ](#)).

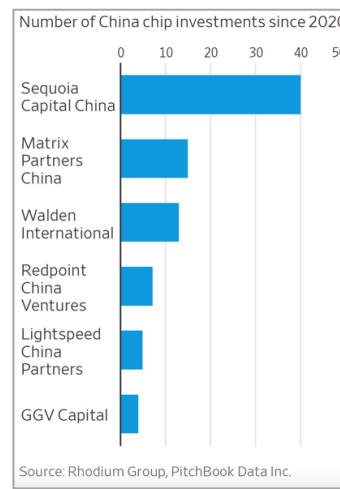
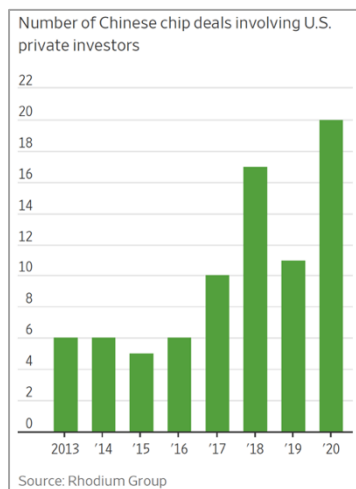
Labor & Industry

- **New semiconductor plant.** Samsung announced plans for a \$17 billion semiconductor plant in the central Texas town of Taylor, with manufacturing starting in Q4 2024; Taylor is 30 miles from Austin, the site of Samsung's sole current U.S. chip plant ([CNBC](#)).
- **Supply chain "lessons learned" will survive.** Companies are making changes to operations and sourcing that will last beyond the pandemic-induced supply chain crunch, with stopgap measures for responding to materials shortfalls and transportation logjams embedded into ongoing operations. Some are moving workers and production facilities closer to home and relocating plants closer to suppliers, while others are buying their suppliers or bringing former contract work in-house ([WSJ](#), [WSJ](#)).
- **Southeast Asian manufacturing.** Industrial output in Vietnam and Malaysia, significant electronics manufacturing hubs, rebounded over the past month as COVID-19 cases declined, easing some bottlenecks that have choked semiconductor output. The Vietnamese labor force, however, is still missing many workers who returned to their home provinces post-stringent lockdowns ([WSJ](#)).
- **HS Code Update.** On January 1, 2022, the World Customs Organization will institute changes to the Harmonized System Codes (HS Codes), with more than 350 updates to global HS Codes and ~1,500 harmonized U.S. tariff codes undergoing revision ([Bloomberg](#)).

Risk & Innovative Mitigation

- **U.S. firms and their Chinese affiliates are ramping up investment in Chinese semiconductor companies, circumventing the spirit of U.S. export controls and alarming U.S. officials.**

- Responsive bipartisan legislation would **screen outbound U.S. investments and offshoring of critical supply chains/tech-industry resources to adversaries like China and Russia**, aiming to close the gap not covered by export controls or CFIUS (Committee on Foreign Investment in the U.S.) reviews. Relatedly, an annual report from an influential commission called for **restricting U.S. investment in China and limiting investors' ability to buy U.S.-listed Chinese stocks** ([WSJ](#), [WSJ](#)).



- **Leaving China.** Yahoo has joined Microsoft's LinkedIn in pulling out China, citing increasingly daunting business and legal environments ([WSJ](#)).
- **Knock-on effect.** China's new stringent data privacy law is making cargo ship tracking opaquer and adding to global shipping disruption ([Reuters](#)).
- **U.S. blacklists new Chinese companies.** The Commerce Department added more than a dozen Chinese firms to its trade-restricting Entity List (and 27 new entities overall), including eight tech entities for their putative role in assisting China's military quantum computing efforts and supporting the acquisition of U.S. origin-items for military applications ([CNBC](#)).
- **Offensive cybersecurity.** The FBI Director wants corporates to work more closely with law enforcement to deter foreign hackers, even mentioning that FBI agents would be happy to blend in while working on company premises. At the same time, the Pentagon is rethinking cybersecurity's role in the national defense strategy, with a high-level DoD official articulating the concept of “defending forward” as a more proactive approach to cyber policy ([Bloomberg](#), [Nextgov](#)).
- **Cyber bounty.** The U.S. offered a \$10 million reward for information on leaders of the DarkSide cybercrime gang, a putatively Russian outfit responsible for the May 2021 ransomware attack on Colonial Pipeline ([Reuters](#)).

Threats & Regulatory Compliance

- **FTC's supply chain investigation.** On November 29th, the Federal Trade Commission announced an investigation into supply chain disruptions and ordered nine large companies to provide detailed information about the situation. Goals of the study will be to determine if supply chain problems have led to particular bottlenecks, anti-competitive practices, or higher prices ([Yahoo](#)).
- **CVE bulk-patch.** Through a sweeping executive order, the Biden administration directed federal agencies to patch hundreds of CVEs (common vulnerabilities and exposures) to shore up cyber defenses ([WSJ](#)).
- **New hacking targets.** Cybercriminals are selling illicit access to shipping and logistics giants, threatening the global supply chain ([ZDNet](#)).
- **U.S. Navy contractor indicted.** The DoJ charged the CEO of Multinational Logistics Services (MLS) with bribery; MLS is a large ship husbanding company with **over \$1 billion in Navy contracts** since 2010 ([DoJ](#)).
- **Huawei's bribery in Serbia.** From the Pandora Papers leak: amid a push to gain influence in Serbia, Huawei appears to have bribed a Serbian state telecom executive ([OCCRP](#)).
- **Push to blacklist Huawei spin-off.** U.S. senators have called for the Biden administration to blacklist Huawei spin-off Honor, the telecom giant's former budget smartphone unit ([Reuters](#)).

- **China's advanced hypersonics.** China is expanding its capacity to develop weapons that can be fired from hypersonic missiles, with U.S. military officials conceding that America's hypersonic weapons-development program trails China's. China's state-controlled AVIC Aerodynamics Research Institute is opening a new testing facility capable of replicating the speeds and high temperatures faced by hypersonic missiles in flight ([WSJ](#)).



- **China's military-use AI.** The Chinese People's Liberation Army (PLA) has reportedly made "extraordinary progress" in procuring AI systems for combat and support operations, focusing on autonomous vehicles and using AI and machine learning to improve intelligence analysis, information warfare, and target recognition, with particular interest in drone swarms ([The Record](#)).

- **China summit & tensions.** On November 15th, President Biden held a virtual summit with Chinese President Xi Jinping, discussing U.S. concerns about Chinese human rights violations, aggression toward Taiwan, and abusive trade practices ([CNN](#)). **U.S. grievances with China run long and deep:**



- *Targeting U.S. critical infrastructure:* A November 2021 Pentagon report highlighted a **1,300 percent jump in China-linked espionage cases** over the past decade, consistent with 2020 comments from the FBI Director that nearly half of the FBI's 5,000 active counterintelligence cases related to China. China uses spying, espionage, and supply chain and cyber operations to access U.S. critical infrastructure, including by **inserting malware into key IT networks and communications systems** ([DoD](#), [FBI](#)).
- *Military-Civil Fusion:* China is merging its economic, social, and security development objectives to support the Chinese Communist Party's goals, including military and ideological aims. Part of the strategy is to **eliminate barriers between China's civilian research/commercial sectors and its military/defense industrial sectors** ([DoD](#)).
- *Human rights abuses:* China is committing **genocide** against Uyghurs and members of other ethnic and religious minority groups, including through imprisonment, torture, rape, and forced sterilization. The Chinese Communist Party showcased its authoritarian tactics at the start of the pandemic as **health professionals and citizen journalists disappeared**, were arrested, or were otherwise silenced for speaking out about the coronavirus ([U.S. Treasury](#), [Amnesty International](#)).
- *Economic coercion to achieve political aims:* Recent examples include China's economic targeting of Australia for seeking an independent investigation of COVID-19's origin, and its boycott of Swedish clothing firm H&M for

They Documented the Coronavirus Crisis in Wuhan. Then They Vanished.

John Cena Apologizes to China for Calling Taiwan a Country

Mr. Cena, a star of the newest "Fast and Furious" movie, posted a video apology in Mandarin, saying, "I'm really sorry. You have to understand that I love and respect China."

expressing concern about forced labor in Xinjiang ([DoD](#)). Through its strongarm tactics, the **Chinese Communist Party** is increasingly driving global self-censorship.

Dimon Regrets Quip JPMorgan to Outlast China Communist Party

- *Global counterfeiter:* A 2016 report estimated China's responsibility for more than 70 percent of global physical trade-related counterfeiting, the equivalent of 12.5 percent of China's exports. Per a 2019 survey of North America-based CFOs **one in five corporations said China** had stolen its intellectual property in the last year ([Chamber of Commerce](#), [CNBC](#), [IP CloseUp](#)).

CNBC CFO COUNCIL

1 in 5 corporations say China has stolen their IP within the last year: CNBC CFO survey

ABOUT EXIGER

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