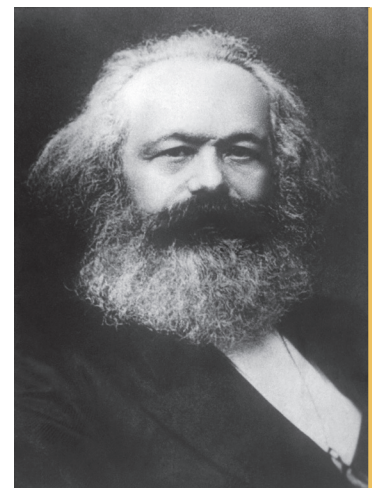


PREPARING FOR A CHANGING WORLD

2018 marks the 10th anniversary of the catastrophic crisis that rolled through global markets threatening financial Armageddon until, at the second attempt, the US government coordinated an effective rescue plan. The most malignant parts of the financial sector were variously shuttered, taken into national ownership or acquired by others deemed (often only by force of individual leadership personality) to be the survivors upon whom a new industry would be built. Central bank policies were adjusted to full “emergency mode”, and the financial doomsday clock that on 29 September 2008 had stood at minutes (if not seconds) to midnight was reversed.

Although nominally originating in the United States, the catastrophe of 2008 was truly a Global Financial Crisis: repeated from Reykjavik to Melbourne with some of the most devastating effects felt across the capitals of Europe. The responses, mixing forced ownership changes with profound central bank support, were broadly similar though marked with substantial local differences.

10 years later, the effects of 2008’s crisis are variously still felt. Those countries that had the greatest flexibility with regard to either (or better, both) of their currency or their labour market practices now see 2008 recede in the rearview mirror as growth, markets and central bank policy return to more normalised levels. Those without such flexibility, by contrast, remain firmly stuck within the debris of a decade ago.



KARL MARX

2018 also marks the 200th anniversary of the birth of Karl Marx. Trained as a philosopher but unable to secure an academic career within conservative Prussia, his energies were turned to journalism and a prodigious output of often unfinished works combining economics, philosophy and social politics. A central tenet of these works is a belief that an inherent and inevitable conflict between the interests of Labour and Capital sow the seeds of the ultimate collapse of any capitalist system.

Even before the end of his life (in 1883), Marx’s ideas had been purloined beyond his acceptance (“Je ne suis pas marxiste !”), and for much of the latter half of 20th century the capitalist West looked upon the communist East with ill-concealed disdain. The collapse of the USSR and clear movement of China to a market economy (taking the notion of “Competition, red in tooth and claw” to unprecedented levels) in the 1990s only confirmed the apparent victory of market based capitalism.

Maybe it is important to reconsider the ripples of these two anniversaries within the context of a world order that is going through profound changes.

Most especially, the forces of globalisation that emerged after 1945 and then dramatically accelerated after 1989, have now decelerated and are almost certainly in reverse.

Brexit: this potentially devastating act of national self-harm was, first and foremost, a response to 8 years of austerity policies that left too many people angry, frustrated and inadequately served by government.

EU dislocation: repeated shocks, originally financial (Dublin, Lisbon, Athens) and more recently political (Brexit, Catalonia, Italy and now “middle” Europe) have roiled the European consensus. Thus far, the institutions and post-war philosophy prevails, but each new crisis widens the cracks between North and South; Liberal and Conservative.

Trump Presidency: perhaps most importantly the election of Donald Trump as US President marked a decisive recognition that the world had changed. That he won versus Hilary Clinton should not have shocked: 40 years of zero growth in average real wages was inevitably going to redound to the advantage of whomever was prepared to assail the easy targets of Davos and the 1%. The following 18 months have seen a rising crescendo of Democrat and international opprobrium: they matter not a jot. His approval level amongst Republican voters is at record levels, and he will keep “Putting America First”.

In each case, the aftershocks of 2008 combined with an even longer wave of economic tension, are giving rise to a sharp reversal of support for international institutions, a marked increase in questions posed about the benefits of globalisation and a tendency towards greater political prioritisation of narrow national interests.

These trends have important implications for the ecosystems within which all companies operate. Even if economic growth continues at reasonable levels; interest rates and monetary policy remain generally accommodative; and there are not dramatic contractions in cross-border trade flows, there are going to be increasing pressures across the production and organisational structures of companies. A few to consider:

- Nationalist prioritisation of local rather than foreign sourcing
- Political based disruptions to key component supply
- Currency and other payment restrictions
- Heightened levels of monetary policy and interest rate uncertainty

The urgency of attention to reinforcing the robustness and security of supply chains has never been greater.

Much of what needs to happen should focus upon physical aspects and logistics optimisation; but the role of effectively designed financial support can make a decisive contribution. For Orbian, these changing global circumstances have led to fundamental changes in the ways in which we encourage the use of Supply Chain Finance. Some of these include:

- Access to early liquidity afforded by an SCF program should be offered to ALL suppliers. Weaponising DPO extension whilst restricting SCF access only to larger suppliers, poses a significant challenge to any notion of reasonable behaviour.
- SCF should provide suppliers with a set of risk management tools alongside access to early liquidity. Interest rate, currency and credit hedges should, wherever possible, be incorporated within the offered SCF solution. This will require much greater analytical capabilities as well as advanced skills on behalf of program manager, but become increasingly important in a volatile world to ensure the sustainability of SCF program economics for both Buyer and Supplier.

- SCF programs should be actively used to promote supply chain initiatives. Such initiatives might include Environmental, Social or Gender goals. Equally they might include physical Quality and Delivery goals; as well as deliberate efforts to assist the development of local sourcing alternatives.
- Extend the use of SCF earlier in the payment cycle and deeper through the supply chain. Increasing use of both AI to interrogate payment patterns as well as growing networks of 2nd-3rd-4th order suppliers provides increasing opportunities to insert liquidity as early as possible into the supply chain and thereby leverage the positive effects of such initiatives.

ABOUT THE AUTHOR



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Tom has over 25 years of experience in financial services including banking, insurance and private equity.

Prior to joining Orbian, Tom worked for 16 years with JP Morgan in London, Melbourne, Sydney and Tokyo. His experience was most focused upon debt capital markets, corporate finance and credit markets; and he was ultimately responsible for each of these businesses for JP Morgan in Asia Pacific.

Tom is also the Chairman of Raglan Capital Limited, a Bermuda based private equity firm.