Risky business: China's economic slowdown and Sub-Saharan Africa supply chains

According to the latest CIPS Risk Index, global supply chains suffered from growing risk in Q4 2015, led by the slowdown in China's economy. Powered by Dun & Bradstreet and produced for the Chartered Institute of Procurement & Supply (CIPS), the CIPS Risk Index tracks the impact of economic and political developments on the stability of global supply chains.

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Supply chain risks

Bucking the trend, Sub-Saharan Africa saw a slight drop in its risk score from 5.54 in Q3 2015 to 5.53 in Q4, contributing 3.1% to global supply chain risk. The most notable contributory factors to this downward shift were macroeconomic improvements in Cote d'Ivoire, Namibia and Senegal. All three countries took measures to diversify their economies away from commodity exports to China and boost investment in transport and energy infrastructure. These countries also benefitted from budget deficits remaining under control and debt distress risks remaining low.

On the other hand, Malawi and Zambia saw their supply chain risks increase over concerns about economic instability as a result of low commodity prices and energy shortages, as well as rising domestic debt and rampant inflation.

At the regional level, risk continue to increase as the slowdown in the Chinese economy weighed on Sub-Saharan Africa's growth in the fourth quarter of 2015.

Impact of slowing growth in China and US interest rates on key economies

Many of the key economies in the region remain over-dependent on commodity exports to China. At the same time, large external and fiscal deficits among key regional economies are another area of concern. With a global commodities downturn, slowing growth in China and rising US interest rates, foreign investors have become more cautious about lending across the African continent. Faced with increasing interest payments, falling revenues and depreciating currencies, some countries are likely to struggle to service their debts.

Andre Coetzee, managing director of the Chartered Institute of Procurement & Supply (CIPS) Africa said, "The Chinese slowdown, further falls in global commodity prices, and the prospect of a rapid capital outflow as a result of the US interest rate increase are having an uneven impact on supply chain risks across Sub-Saharan Africa's key economies. Countries which fail to take action to diversify their economies or control national debts are likely to face economic and political instability, translating into increased supply chain risks.

Diversification is key to improving risk outlook

"For businesses in the region with international supply chains, it's crucial to have processes and plans in place to cope with uncertainties and disruptions, from both a regional and global level."

According to Oana Aristide, interim leader, Country Risk Services, Dun & Bradstreet, ''Diversification and better macroeconomic management has improved the risk outlook for a number of Sub-Saharan economies, but the region as a whole remains overly reliant on China and commodities."