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A New Geopolitics of Supply Chains

The Rise of Friend-Shoring

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A succession of disruptions to world trade have put the reorganisation of international supply chains high on the political agenda. The difficulties began with the trade war between the United States and China, deepened with the Covid-19 pandemic and culminated in the sanctions and export controls imposed by Western countries after Russia's invasion of Ukraine. The increased risk of interruption of supplies forces businesses today to price in political factors and respond to political demands. However, realistic timeframes for reconfiguring supply chains are largely incompatible with the rapid responses expected by political decision-makers, especially where chains are long and complex. A process needs to be developed for dealing more effectively with political supply chains risks. It should be transparent for all involved.

The consequences of the Covid-19 crisis, growing tensions between the West and China and the war in Ukraine have placed the question of reorganising international and global supply chains firmly back on the political agenda. The further the economic sanctions are expanded, the more strongly trade relations become an instrument of foreign and security policy. The idea of free trade as an intrinsic value falls by the way-side. Now, staking out spheres of influence and assessing the reliability and trustworthiness of suppliers and countries is the order of the day. That is the background to the recent recommendation by US Treasury Secretary Janet Yellen to pursue "friend-shoring" by shifting supply chains to "trusted countries". This, she said, will allow us to "continue to securely extend

market access" and "lower the risks to our economy as well as to our trusted trade partners" Yellen's Canadian counterpart Chrystia Freeland took up her proposal, welcoming friend-shoring as a "new norm" that "may require some new institutions, some new relationships". This pursuit of political convergence in the guise of shifting supplier relationships to states espousing similar values has been taken up in the European context, for example in the European Commission's Strategic Foresight Report 2022. The key concept of "secure trade" calls into question the multilateral system of the World Trade Organisation. WTO Director-General Ngozi Okonjo-Iweala criticised this trend towards fragmentation of the world trade order as a "wave of protectionism". Voices from the Global South



also reject friend-shoring on principle, arguing that it would exclude poor countries even more strongly from international trade, fail to provide them with income and employment, and endanger their internal stability.

Geopolitical divides in the supply chain world

Friend-shoring builds on an open partnership model, encompassing those states that share the American understanding of open markets, while at the same time implementing labour and environmental standards. That has been expedited by Europe's decision to terminate economic relations with Russia. It raises the prospect of the emergence of a new trading bloc, composed of democratic states pursuing economic and regulatory convergence. What that means for supply chain governance is the introduction of a new and strongly geopolitical facet into the broader discussion about geographical "re-shoring" (relocation to the home country) that had to date encouraged diversification in a more neutral sense. This applies especially to strategic sectors such as aerospace, automotive, micro-electronics, medical devices and pharmaceuticals, but also to mineral, energy and agricultural resources and their processing.

Yellen's proposal introduces the geopolitical dimension of "trusted trade partners" into a debate that has hitherto concentrated on the operational reliability of supply chains. In other words, the political convergence outlined above comes on top of the existing criteria of efficiency, sustainability and resilience. The proposed reversal of corporate location policies and the shortening of supply chains will be financially costly and will require considerable time, especially with complex supply chains. Thus it is estimated that up to 26 percent of global exports could potentially be relocated in the next five years, amounting to up to US\$4.6 trillion. However, the associated corporate decisions now have to take increasing account of political aspects that

they previously preferred to ignore. Assessing the profitability of friend-shoring involves a strategic reorientation that could mean a far-reaching reconfiguration of the existing supply chain networks. Achieving that will inevitably demand a great deal of time and financial investment.

Concretely it would mean abandoning the simple logic of "off-shoring" (relocating production abroad) and replacing it with a flexible mix of "near-shoring", "re-shoring" and "friend-shoring". Depending on the availability of production factors and locations, such a mix would lead to a modular reconfiguration of the various segments of a supply chain. It will be imperative to contextualise the specific conditions at each stage of the supply chain from a strategic and operational perspective.. That can only be achieved if state and corporations work hand in hand. The final destination of efforts to establish "secure" supply chains for strategic goods and services would then be a geopolitical reordering of the world, dividing it into "North-North" and "South-South" supply chains. In that case it would be expedient to gather a coalition of allies.

However, given the global geographical distribution of resources, it is questionable whether such a model would be viable. It must be expected that applying such a logic would lead to massive disruption of trade flows, bringing with it enormous price increases for consumers.

Operationalising political convergence

The proposal to pursue friend-shoring draws supply chains into the sphere of geopolitical rivalry and the division of the world into free-market democracies and allies of the authoritarian regimes of China and Russia. One central motive for friend-shoring is the desire for greater independence from suppliers whose autocratic disposition creates dangers of political blackmail and economic coercion. If vulnerability to interdependency is reduced, it is hoped, supply chains will become more