Global supply chain challenges in times of multiple crises

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„Ist die Weltwirtschaft geliefert?
Globale Lieferketten und multiple Krisen“

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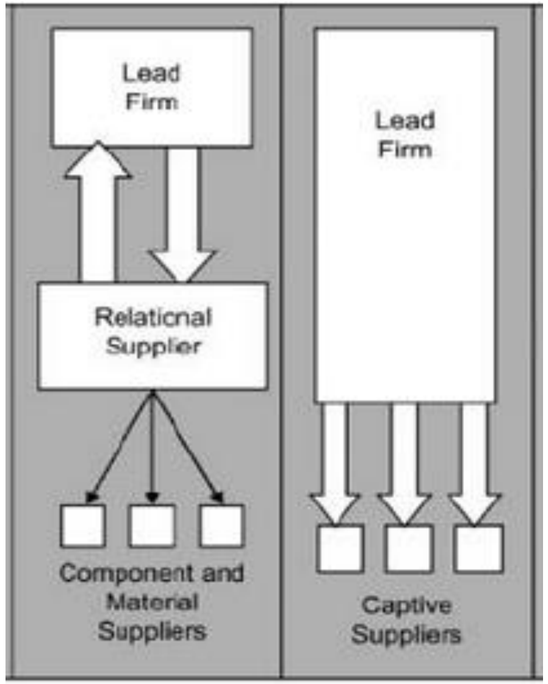
IDOS | German Institute of Development and Sustainability

Why it is important to understand and shape global supply chains

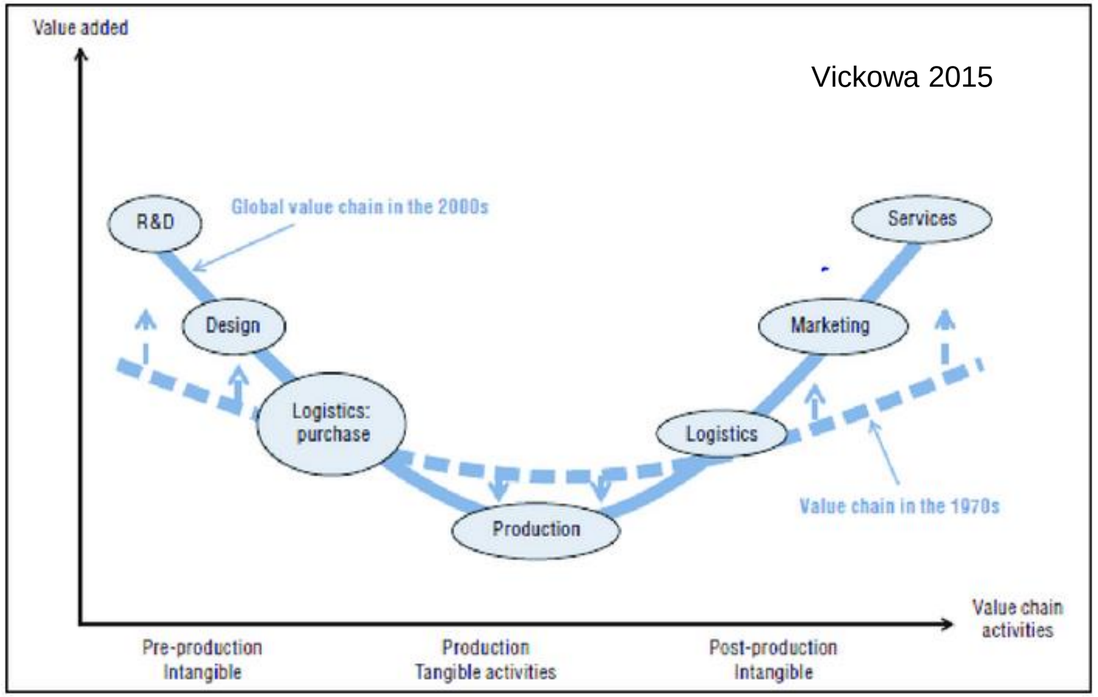
1. **World trade increasingly organised in GSC**
   - *Traditionally, countries produced final goods and traded which each other.*
   - *Today, 70% of trade through global value chains: different production steps carried out in different countries, products criss-cross national borders*
   - *Mostly "made-by-order" from big multinationals*
2. **HOW you participate matters !**



What you produce ...

... and who sets the rules.

Gereffi, Humphrey, Sturgeon 2015

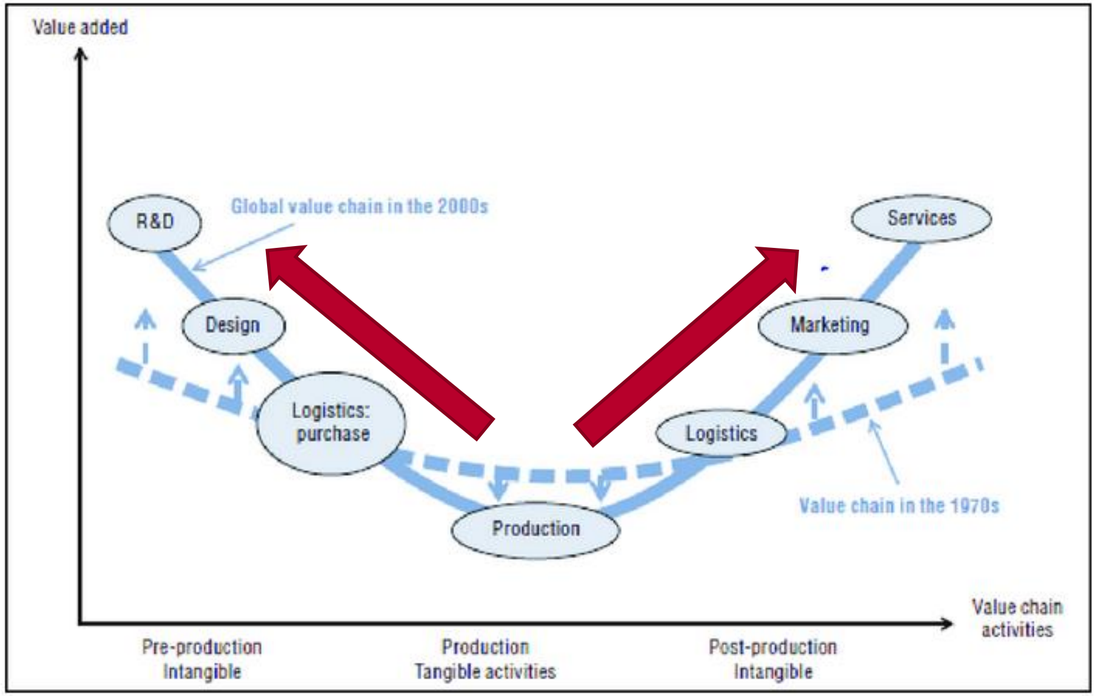


Vickowa 2015

Why it is important to understand and shape global supply chains

Developing countries that want to benefit from trade ...

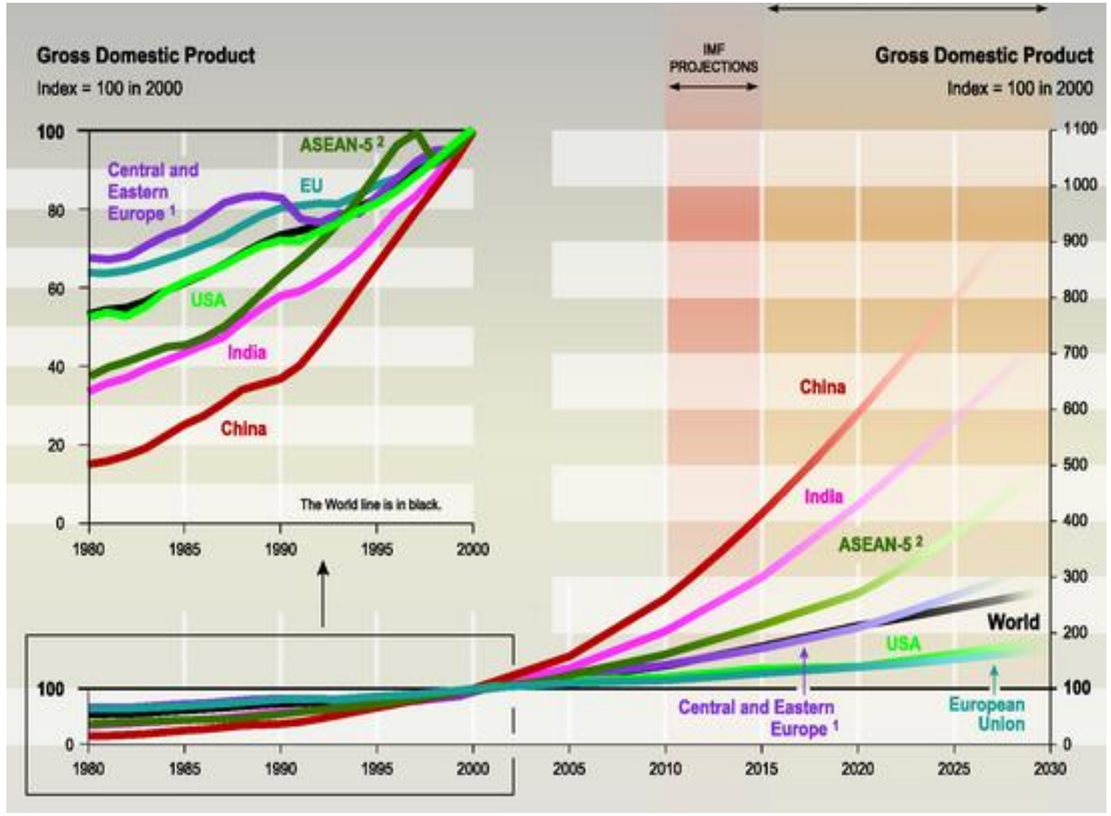
- *need to become part of GSC*
- *usually start from unattractive initial conditions, often labour-intensive production*
- *Need a strategy & policy space to move upwards*

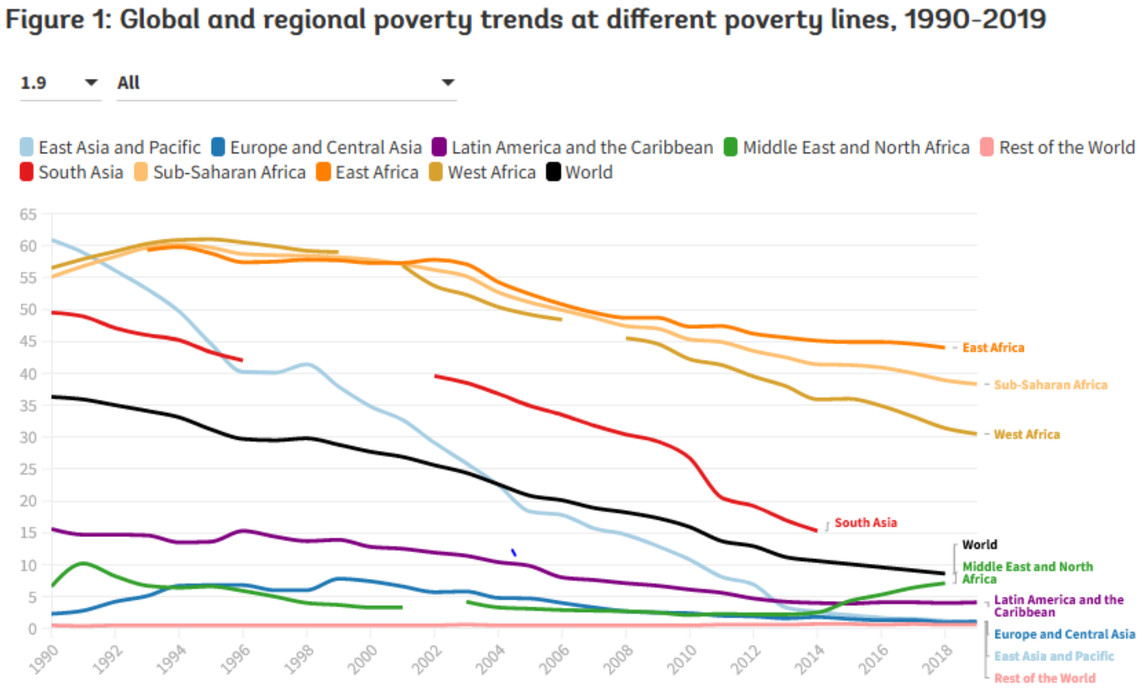


Why it is important to understand and shape global supply chains

Some extremely successful, esp. Asian exporters

- *GSC are mainly an opportunity, not a problem of exploitation !*
- *But many countries do not manage to get into GSC, or upgrade within, GSC*



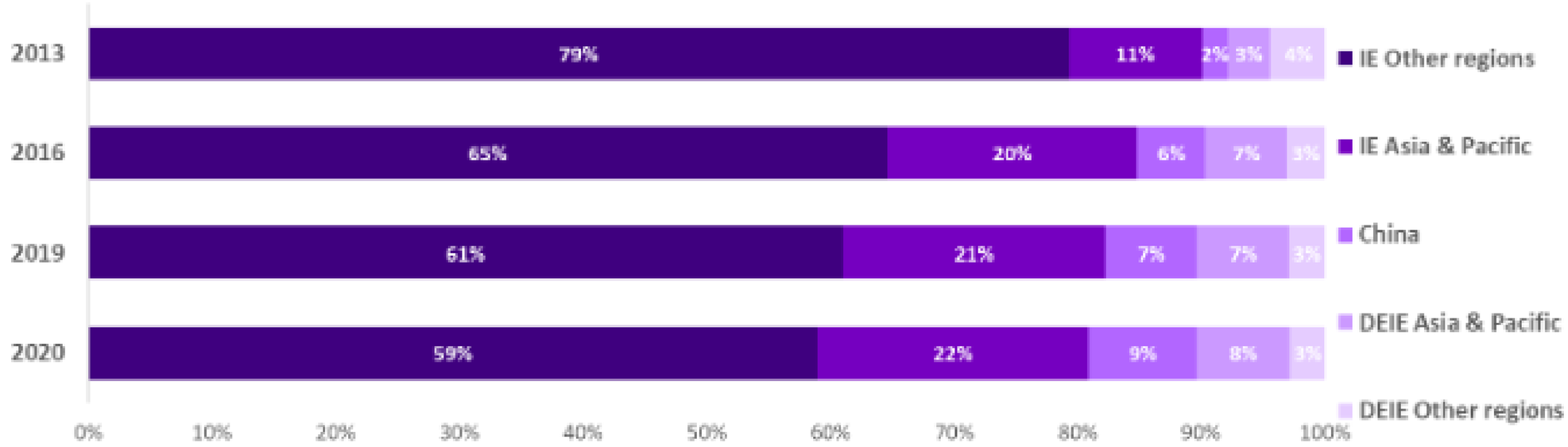


Multiple crises are impacting on GSC

1. Increasing tensions between China and the US/Europe

- *Supply chains have been "going East" for several decades*
- *Super-competitive China became super-competitive (low-cost, high tech, big market)*

Figure 5: Share of suppliers for all G2000 manufacturing companies, by region of origin (2013-2020)



Falk et al., UNIDO, 2021

Source: Accenture Research based on FactSet financial data and analytics (https://www.factset.com/).

Multiple crises are impacting on GSC

1. **Increasing tensions between China and the US/Europe**
   - *Supply chains have been "going East" for several decades*
   - *Super-competitive China became super-competitive (low-cost, high tech, big market)*
   - *Increasing Chinese economic and geopolitical influence, control of minerals supply chains, control of infrastructure (Belt & Road Initiative)*

   ⇒ ***Increasing tensions and geopolitical responses:***
   National treaties to secure access to resources, protectionism and retaliation

2. **COVID 19**
   - *Temporary disruptions of many supply chains, especially due to strict lock-downs in China, especially problematic in strategic inputs (micro chips, drugs)*

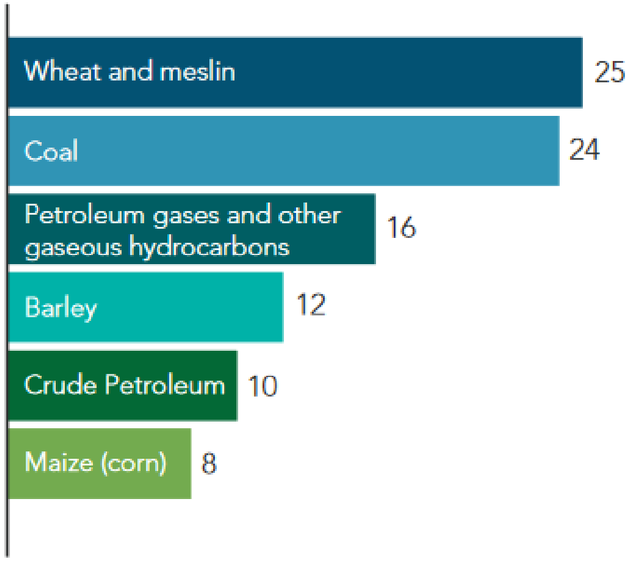
Multiple crises are impacting on GSC

3. War on Ukraine

- *Disruptions and price hikes in many commodities …*
- *… from Russia: Gas, oil, aluminum, precious metals*
- *… from Ukraine: Grains, sunflower oil, uranium ore ..*
- *Huge worldwide increase of inflation*

⇒ *Incentives for „friend-shoring“*

Chart 2 - No. of countries that have a high dependency on Russian and Ukrainian exports of select commodities



UN Comtrade, Dun & Bradstreet Research

4. Unequal speed of actions against global warming

- *Some countries with ambitious decarbonization targets, others less ambitious*

⇒ *Incentive to produce in countries with lower environmental standards*

⇒ *Measures to protect ambitious markets from „high carbon imports“ (CBAM)*

⇒ *Likely to trigger a wave of retaliation measures …*

Shaping GSC in the public interest

⇒ **Many additional reasons for invening in GSC … but how ??**

Some examples of supply chain policies and risks:

a) Social and environmental standards

- **Advantage:** Creates transparency, enables customers to recognise sustainable products, allows producers to get higher incomes
- **Risk:** Increases costs of compliance, may crowd small producers out. Standards may become trade barriers.

Shaping GSC in the public interest

b) Due diligence laws and regulations

- **Advantage:** Creates transparency along supply chain, encourages firms to take closer look, holds them accountable
- **Risk:** Increases costs of certifcation/ compliance, may discourage firms to source from poor countries with weak institutions, from SMEs, from farmers

c) Protectionism and national industrial policies

- **Advantage:** Secures long-term supplies of strategic goods, makes countries less dependent on (hostile) trading partners
- **Risk:** Increases costs, may erode competitiveness, may lead to retaliation

Shaping GSC in the public interest

General observation:

- Power asymmetries in GSC: Rich countries and powerful firms set standards to which poor countreis and powerless firms need to adhere

⇒ involve the latter in negotiations

⇒ check for unintended negative effects

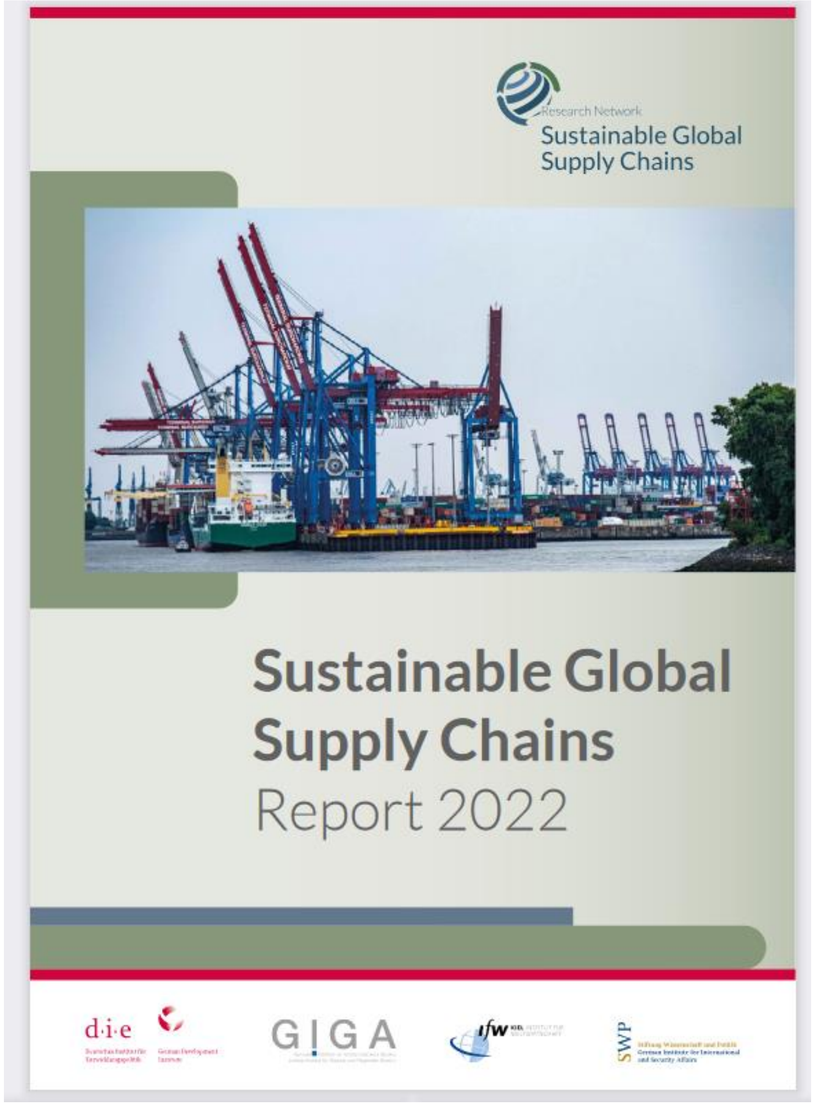
⇒ adress problems „on our side“, not only „their“ side: e.g. ban micro plastics in synthetic clothing rather than putting pressure on cotton farmers …

Policies needed to improve societal impacts – but design matters !

Research Network

Sustainable Global Supply Chains

https://www.sustainablesupplychains.org/



Thank you!

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