Towards managed supply chains?

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Global supply chains under fire

Clothing made by Chinese forced labor is likely being sold in the US.
Harnessing global value chains
Agenda

What is a global value chain (GVC)?

The power of/in GVCs

GVCs as a geopolitical policy tool

GVCs as a sustainable development policy tool

Things to reflect on
What is a global value chain?

Figure 1.1 Where do bicycles come from?

- **Saddle exports**
  - China: US$100 million
  - Italy: US$86 million
  - Spain: US$16 million

- **Frame exports**
  - China: US$977 million
  - Vietnam: US$147 million
  - Italy: US$66 million

- **Brake exports**
  - Japan: US$200 million
  - Singapore: US$172 million
  - Malaysia: US$152 million

- **Wheel exports**
  - China: US$70 million
  - Italy: US$28 million
  - France: US$26 million

- **Pedal and crank exports**
  - Japan: US$150 million
  - China: US$137 million
  - Singapore: US$117 million

Source: WDR 2020 team, using data from UN Comtrade database. See appendix A for a description of the databases used in this report.
Share of domestic value added in gross exports (%)

Canada
- 2006: 80.5
- 2016: 79.4

China
- 2006: 74.1
- 2016: 83.4

United States
- 2006: 88.6
- 2016: 91

Source: OECD TIVA
Share of Canadian exports destined to the USA (%)

Source: OECD TIVA
Towards a network view of Canada’s integration in the global economy

- Canadian firms are part of a network of local linkages, which is embedded in a larger global network of linkages.
- Competition between regional value chains, not between national firms.
- Canada’s export performance is not merely driven by its firms’ productivity, but also by the connectedness of its firms to key value chain partners.
Feature 1: Smile of value creation

Source: Mudambi (2008)
Feature 2: GVC power

- Lead firms have power to select which suppliers are included or excluded in GVCs, under which conditions, and where, when and by whom value is added.
- It is this power that policymakers are increasingly trying to harness for non-trade-related goals
  - Geopolitics
  - Resilience
  - Sustainability
GVCs as a geopolitical policy tool

• USA has tried to force domestic reform in China by threatening to de-couple American-led GVCs from China.
• The Sino-US trade war has increased average tariffs to approximately 20 percent between China and USA.
Donald J. Trump @realDonaldTrump · 20m
There is no reason for the U.S. Consumer to pay the Tariffs, which take effect on China today. This has been proven recently when only 4 points were paid by the U.S., 21 points by China because China subsidizes product to such a large degree. Also, the Tariffs can be.....

Donald J. Trump @realDonaldTrump · 20m
...completely avoided if you buy from a non-Tariffed Country, or you buy the product inside the USA (the best idea). That’s Zero Tariffs. Many Tariffed companies will be leaving China for Vietnam and other such countries in Asia. That’s why China wants to make a deal so badly!...
Footwear Distributors and Retailers of America, May 20, 2019

• “There have been suggestions that industries should quickly shift sourcing to countries other than China in the wake of these additional tariff threats. While our industry has been moving away from China for some time now, footwear is a very capital-intensive industry, with years of planning required to make sourcing decisions, and companies cannot simply move factories to adjust to these changes. Any action taken to increase duties on Chinese footwear will have an immediate and long-lasting effect on American individuals and families. It will also threaten the very economic viability of many companies in our industry.”
Global value chain resilience

Reshoring and supplier diversification (away from China) will increase GVC resilience

What he said
GVCs as a sustainable development tool

- Lead firms can leverage GVC power to promote social standards, environmental stewardship and resilience along the chain.
- E.g., pledge to only work with suppliers that comply to strict codes of conduct and impose same rules down the chain (cascading compliance).
Private governance

- Enthusiasm that GVC power can lead to private governance that fills important gaps in global regulation (e.g. Forest Stewardship Council; Fair Labour Association).

- Call for deeper engagement by multinational firms to tackle the Sustainable Development Goals.
Sustainability due diligence

- Require companies to identify adverse impacts in their GVC and take measures to address them.
- **Voluntary:** UN Guiding Principles on Business and Human Rights (UNGPs); OECD Due Diligence Guidance for Responsible Business Conduct
- **Mandatory:** Dodd-Frank Act; European Due Diligence Act; Public Procurement requirements
Things to reflect on

• Growing political appetite to harness the power of GVCs for geopolitical, resilience and sustainability reasons.
• Effectiveness of policies unclear.
• Compatibility with WTO principles?
• Towards a fracturing of the global trading system?