



HAL
open science

With a little help from friends: Towards regional supply chains

Gilles Pache

► **To cite this version:**

Gilles Pache. With a little help from friends: Towards regional supply chains. Supply Chain Management, 2022. hal-03911566

HAL Id: hal-03911566

<https://hal.science/hal-03911566>

Submitted on 23 Dec 2022

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

SUPPLYCHAIN

MANAGEMENT REVIEW

With a little help from friends: Towards regional supply chains

By Gilles Paché • December 22, 2022

At the operational level, regional supply chains could replace traditional global supply chains. But is friend-shoring so easy to implement? Probably not, but it is certainly worth evaluating.

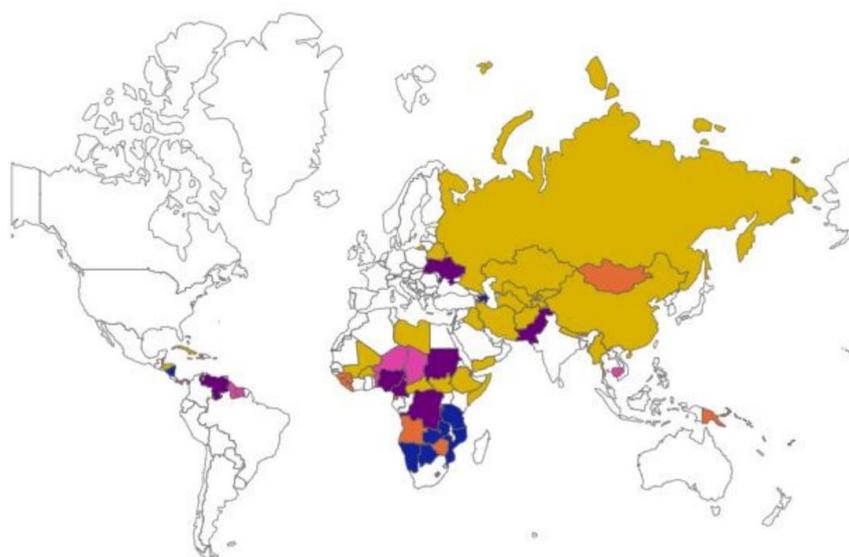
With the Covid-19 pandemic, followed by the war in Ukraine, the vulnerability of global supply chains faced with disruptive crises has become a major issue for logisticians, leading to questions about the limits of international sourcing and the opportunity of a de-globalization strategy. The form taken by de-globalization is a policy of re-shoring and the development of regional supply chains. Building regional supply chains should help reduce the vulnerability of economies and increase resilience. Even the World Bank, in its *World Development Report 2020*, implicitly recognizes the negative impacts of global supply chains, particularly in terms of the excessive capture of profits by a handful of multinational companies. It is in this turbulent context that the debates on friend-shoring have been taking place in the United States, and then in Europe, since a famous speech by Janet L. Yellen, U.S. Secretary of the Treasury, to the Atlantic Council in April 2022.

A new view of the international trade

Friend-shoring corresponds to a new geopolitical vision of the world: the implementation of privileged and close partnerships between countries sharing the same humanistic values. Unlike traditional re-shoring to the country of origin of an industrial company, friend-shoring implies the concentration of trade between trusted commercial partners who are culturally close, which should reinforce the robustness of supply chains by integrating the criterion of *geopolitical convergence*. In its research note “Friend-shoring: who will benefit? A good look at ‘friend-shoring’ from China” (2022), the Rabo Research thus proposes to identify the winners of friend-shoring by excluding countries with which it is unacceptable to trade, especially for non-respect of human rights, or countries whose political instability is so great that it is impossible to envisage an economic projection over several years. If we add countries with weak infrastructural and/or human resources, half the world is affected (see map).

Countries potentially excluded from friend-shoring

Reason for exclusion ● Data ● Infrastructure ● Labor potential ● Political instability ● Unacceptable country



Source: Rabo Research.

At the operational level, the key idea of friend-shoring is to create smaller exchange areas, based on powerful solidarity between some countries. This is a real logistical revolution, since global supply chains, which have been in place for the past 40 years, have considered that technological progress in product transport has made it possible to generalize offshoring policies at a lower cost by relocating industrial activities to countries thousands of kilometers away. The proponents of friend-shoring therefore do not consider that limited logistical resources and competences are the reason for a desire to shrink trade to shorter distances, within regional supply chains. The issue is treated only from an economic and geopolitical point of view, with the stated objective of protecting access to vital raw materials and components, and not from an environmental point of view.

Yet, it is possible to imagine that the massive presence of regional supply chains would lead to the reduction of global maritime traffic, an activity that is still highly polluting. In 2022, the world fleet would thus include more than 100,000 ships using as fuel a viscous residue of oil, heavy and difficult to burn, which emits during its combustion CO₂, methane (CH₄) and nitrous oxide (N₂O), major contributors to global warming. The creation of homogeneous economic blocs would not be without effect on this pollution, even if it is difficult for the moment to quantify the exact impact. It is possible to have an approximate idea based on the volume of goods transiting through the Suez Canal, an essential corridor for trade between China and Europe. In 2021, 1.3 billion tons transited through it, on 20,694 ships (18,830 in 2020). It is therefore an enormous potential for reducing pollutant rejection that friend-shoring could be the source of.

From dreams to reality

Unfortunately, we should not believe that the paradigm shift will be easy to disseminate. Shortening supply chains, especially when they are configured regionally, will be costly in financial terms and will probably require considerable time to adapt, especially for supply chains with a high level of operational complexity. Especially, it will be imperative to define the specific conditions for achieving friend-shoring for each link in a supply chain, and this can only be done if there is a political will in the coming years. For now, the world remains dependent on raw materials from “unacceptable” and distant countries. For example, 64% of the world’s cobalt procurement comes from the Democratic Republic of Congo, a large part of which is owned by powerful Chinese companies. According to the European Commission, in 2020, China itself is the world’s main producer of 61% of silicon metal, 67% of germanium, 84% of tungsten, and 87% of magnesium and antimony.

As a result, despite being presented as an “unacceptable country” by Rabo Research, China is likely to remain the world’s workshop from which millions of containers feed Western markets (the country handles a quarter of the world’s shipping). Perhaps one of the best examples of China’s continued influence is Foxconn and Pegatron, Apple’s main suppliers. While they announced in 2022 that they would develop manufacturing capacities in Mexico, they still have significant activities in China. This is no surprise, given the existence of *inertia effects* in the organization of procurement systems that are difficult to change radically in a short time. Abandoning a policy of international sourcing would in fact mean that major progress has been made in finding alternative materials and components to those found in “unacceptable countries” or in countries where geopolitical instability is chronic. This is not

impossible thanks to research conducted in the best university laboratories, but it takes time to achieve convincing results.

In other words, although friend-shoring offers stimulating perspectives for reflection on the limits of excessive globalization, it will be difficult to implement. Indeed, it clashes head-on with a model of economic development that stems from a neoliberal orthodoxy which has considered that the wealth of nations, but also the fight against poverty, is based on the elimination of all obstacles to world trade. The two violent crises experienced since 2020 could, however, allow for the gradual paradigm shift, with countries and companies forced to thoroughly review the way they consider the international trade. The environmental argument could be put forward in a very positive way, emphasizing that the fate of the planet is taken into account through friend-shoring. This is a clever way to legitimize the political action, to give the (beautiful) role to the United States as leader of democratic countries, and to convert the generation of millennials to the benefits of de-globalization.

Gilles Pache is Professor of Marketing and Supply Chain Management at *Aix-Marseille University*, and Director of Research at the *CERGAM Lab*, in France. He has more than *600 publications* on logistics management, large retailer strategies and the governance of soccer clubs in Europe. He can be reached at gilles.pache@univ-amu.fr