

Supply chain management and economic statecraft: a five-point agenda

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The COVID-19 pandemic, the [lockdown](#) ^[1] ordered by governments to contain its spread and the unexpected oil price drop in March 2020 have crippled the world economy. These multiple shocks were a harsh wake-up call illustrating inadequate levels of national preparedness.



Preparedness shortfalls result from the fact that many nations treat economics and security as [separate elements](#) ^[2] of national power. The separation, as [Brendan Sargeant](#) ^[3] explained with regards to Australia, is deliberate in order to ensure that ‘neither should be held hostage to the other’.

Keeping up the separation is an [illusion](#) ^[4]. But acknowledging this fact requires public and private stakeholders to better understand how intertwined economics and security have become in complex supply chain networks.

Nations have effectively delegated [security of supply](#) ^[5] to the private sector. This implies that corporate rather than public interests drive supply chain design. The result is cost-optimised, lean and automated supply chains that provide maximum corporate leeway.

But a pure business perspective overlooks the fact that these networks do not only connect companies — they bind nations together.

This is where the [current debate](#) ^[6] about the consequences of the COVID-19 pandemic comes in. Governments argue that bringing home supply chains will strengthen national resilience. But

unilateral decisions to shorten supply chains will affect neighbouring economies that have been integrated into cross-national supply networks, hampering regional cooperation. And political demands for supply chain reorganisation will sit uncomfortably with corporate strategies seeking competitiveness over self-sufficiency.

At the same time, the broader [international environment](#) ^[7] is undergoing fundamental changes. Globalisation thrives on the free flow of goods, services, data and capital as well as the unrestricted movement of people. But more and more actors consider these flows as a strategic currency: if you are able to [control](#) ^[8] them, you exercise power. Thus, the networks that provide connectivity are at the [core](#) ^[9] of emerging geoeconomic competition. This leads to an increasingly contested, polarised and volatile business world.

A public-private supply chain initiative could enhance national and corporate preparedness by stepping up efforts to synchronise public and private activities. This would make supply chains more robust and resilient.

The initiative should start by recognising that the [mindsets](#) ^[10] of the economic and security communities tend to be different. Current international discussions about national security and foreign direct investment (FDI) are a case in point. Whereas the security community considers FDI a potential vector for unwanted outside interference, the economic community sees it as a lubricant of economic cooperation. Cooperation will not be possible without a proper understanding of the drivers shaping each partners' worldview. Therefore, a strategic-level public-private dialogue is needed.

Second, assessing supply chain vulnerabilities requires adequate analytical instruments. Public and private stakeholders should collaborate on joint data spaces to facilitate direct interaction between analysts and decision-makers.

Third, technologies underpin corporate supply chains and help ensure competitive advantages. That's why risks to technology are key to national innovation, prosperity and security. A joint approach to designing technology roadmaps could help produce better understandings of what is at stake if technologies are lost due to espionage or unwanted take-overs. This approach could nurture a change of mindsets. Given that high-tech industries are the prime targets of sanctions, export restrictions and cyber espionage, a 'low tech' approach that reduces dependency on highly intertwined digital connectivity solutions is a competitive advantage worth exploring.

Fourth, governments and corporations need to join forces to advance supply chain transparency. Today, most supply chain partners are familiar with their immediate interlocutors, but beyond that [darkness](#) ^[11] prevails. Whereas big companies and the public sector enjoy access to liquidity on favourable terms, smaller supply chain partners don't. This creates liquidity asymmetry along the supply chain.

Overcoming unequal [access to liquidity](#) ^[12] is the strongest lever to tackle supply chain opacity. For example, establishing liquidity flows among partners in return for accomplishing specific tasks and the exchange of comprehensive data sets would help to increase transparency.

Finally, the regulatory environment is growing more complex. Supporters of protectionist policies and decoupling want to make economic life more difficult for competitors. They are interested in raising rather than erasing the costs of economic exchanges. Corporate supply chains that travel across different regions will be subject to heterogeneous regulatory regimes driven by diverging economic worldviews. Strengthening supply chain resilience in this context requires a new collaborative and incentive-based approach to regulation.

Public-private collaboration is needed to understand how foreign regulatory changes affect supply chains abroad and how governments should respond in order to protect economic interests. Incentive-based regulation by way of fiscal stimuli, for example, is key to advance corporate investments in making supply chains more robust. This could involve investing more in cybersecurity, stepping up research and development efforts to substitute critical raw materials and technologies, and exploring inroads into new markets.

Although East Asia may increasingly [drive its own demand](#) ^[13], the region is not immune to the [US–China confrontation](#) ^[14] shaping more and more policy decisions. The resulting geoeconomic competition is disrupting the business environment.

Business-to-business cooperation remains essential to provide [a much-needed vaccination](#) ^[15] against the prevailing idea of decoupling. But to remain effective, these interactions need to be embedded in a comprehensive economic statecraft agenda that considers supply chain management a top public-private priority. This agenda has two dimensions. The national dimension looks at supply chains to advance competitiveness. The international dimension considers supply chains an essential instrument for regional cooperation.

At both levels, public and private stakeholders need to work together to overcome the prevailing economic–security dichotomy.

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